

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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2019

OR

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

For the transition period from _____ to _____

Commission file number 0-22345

SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland	52-1974638
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
28969 Information Lane, Easton, Maryland	21601
(Address of Principal Executive Offices)	(Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

N/A

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,779,072 shares of common stock outstanding as of July 31, 2019.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SHORE BANCSHARES, INC. CONSOLIDATED BALANCE SHEETS (Dollars in thousands, except per share amounts)

	June 30, 2019 (Unaudited)	December 31, 2018
ASSETS		
Cash and due from banks	\$ 18,541	\$ 16,294
Interest-bearing deposits with other banks	20,739	50,931
Cash and cash equivalents	39,280	67,225
Investment securities:		
Available-for-sale, at fair value	145,410	154,432
Held to maturity, at amortized cost - fair value of \$5,887 (2019) and \$6,000 (2018)	5,905	6,043
Equity securities, at fair value	1,325	1,269
Restricted securities	5,095	6,476
Loans	1,240,295	1,195,355
Less: allowance for credit losses	(10,305)	(10,343)
Loans, net	1,229,990	1,185,012
Premises and equipment, net	22,710	22,711
Goodwill	17,518	17,518
Other intangible assets, net	2,540	2,857
Other real estate owned, net	524	1,222
Right-of-use assets	3,663	
Other assets	14,602	17,678
Assets of discontinued operations	—	633
TOTAL ASSETS	\$ 1,488,562	\$ 1,483,076
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 346,916	\$ 330,466
Interest-bearing	902,084	881,875
Total deposits	1,249,000	1,212,341
Short-term borrowings	25,508	60,812
Long-term borrowings	15,000	15,000
Lease liabilities	3,663	—
Other liabilities	4,084	8,415
Liabilities of discontinued operations	—	3,323
TOTAL LIABILITIES	1,297,255	1,299,891
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value \$.01 per share; shares authorized - 35,000,000; shares issued and outstanding - 12,779,072 (2019) and 12,749,497 (2018)	128	127
Additional paid in capital	65,376	65,434
Retained earnings	125,996	120,574
Accumulated other comprehensive loss	(193)	(2,950)
TOTAL STOCKHOLDERS' EQUITY	191,307	183,185
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,488,562	\$ 1,483,076

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)
(Dollars in thousands, except per share amounts)

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2019	2018	2019	2018
INTEREST INCOME				
Interest and fees on loans	\$ 13,749	\$ 12,631	\$ 27,248	\$ 24,675
Interest and dividends on investment securities:				
Taxable	887	982	1,885	2,003
Interest on deposits with other banks	113	61	276	99
Total interest income	14,749	13,674	29,409	26,777
INTEREST EXPENSE				
Interest on deposits	2,204	580	4,151	1,128
Interest on short-term borrowings	145	461	358	687
Interest on long-term borrowings	107	—	213	—
Total interest expense	2,456	1,041	4,722	1,815
NET INTEREST INCOME	12,293	12,633	24,687	24,962
Provision for credit losses	200	418	300	907
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	12,093	12,215	24,387	24,055
NONINTEREST INCOME				
Service charges on deposit accounts	1,028	947	1,962	1,852
Trust and investment fee income	385	414	757	814
Other noninterest income	1,196	935	2,078	1,770
Total noninterest income	2,609	2,296	4,797	4,436
NONINTEREST EXPENSE				
Salaries and wages	3,792	4,101	7,558	8,327
Employee benefits	1,068	1,045	2,322	2,221
Occupancy expense	668	650	1,359	1,327
Furniture and equipment expense	295	247	558	502
Data processing	919	689	1,829	1,557
Directors' fees	116	152	202	266
Amortization of other intangible assets	155	228	317	327
FDIC insurance premium expense	181	214	386	419
Other real estate owned expenses, net	60	5	293	(41)
Legal and professional fees	559	487	1,160	935
Other noninterest expenses	1,172	1,035	2,344	2,465
Total noninterest expense	8,985	8,853	18,328	18,305
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	5,717	5,658	10,856	10,186
Income tax expense	1,489	1,466	2,800	2,532
Income from continuing operations	4,228	4,192	8,056	7,654
(Loss) income from discontinued operations before income taxes	(4)	269	(103)	1,048
Income tax (benefit) expense	—	70	(25)	253
(Loss) income from discontinued operations	(4)	199	(78)	795
NET INCOME	\$ 4,224	\$ 4,391	\$ 7,978	\$ 8,449
Earnings per common share - Basic				
Income from continuing operations	\$ 0.33	\$ 0.33	\$ 0.63	\$ 0.60
(Loss) income from discontinued operations	—	0.01	(0.01)	0.06
Net income	\$ 0.33	\$ 0.34	\$ 0.62	\$ 0.66
Earnings per common share - Diluted				
Income from continuing operations	\$ 0.33	\$ 0.33	\$ 0.63	\$ 0.60
(Loss) income from discontinued operations	—	0.01	(0.01)	0.06
Net income	\$ 0.33	\$ 0.34	\$ 0.62	\$ 0.66
Dividends paid per common share	0.10	0.08	0.20	0.15

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
(Dollars in thousands)

	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2019	2018	2019	2018
Net income	<u>\$ 4,224</u>	<u>\$ 4,391</u>	<u>\$ 7,978</u>	<u>\$ 8,449</u>
Other comprehensive income (loss):				
Investment securities:				
Unrealized holding gains (losses) on available-for-sale-securities	1,797	(550)	3,780	(3,416)
Tax effect	(492)	149	(1,033)	942
Amortization of unrealized loss on securities transferred from available-for-sale to held-to-maturity	7	8	14	15
Tax effect	(1)	(2)	(4)	(5)
Total other comprehensive income (loss)	<u>1,311</u>	<u>(395)</u>	<u>2,757</u>	<u>(2,464)</u>
Comprehensive income	<u>\$ 5,535</u>	<u>\$ 3,996</u>	<u>\$ 10,735</u>	<u>\$ 5,985</u>

See accompanying notes to Consolidated Financial Statements.

SHORE BANCSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)
For the Three and Six months Ended June 30, 2019 and 2018
(Dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balances, January 1, 2019	\$ 127	\$ 65,434	\$ 120,574	\$ (2,950)	\$ 183,185
Net Income	—	—	3,754	—	3,754
Other comprehensive income	—	—	—	1,446	1,446
Stock-based compensation	—	63	—	—	63
Exercise of options and vesting of restricted stock, net of shares surrendered	1	(89)	—	—	(88)
Cash dividends declared	—	—	(1,278)	—	(1,278)
Balances, March 31, 2019	\$ 128	\$ 65,408	\$ 123,050	\$ (1,504)	\$ 187,082
Net Income	—	—	4,224	—	4,224
Other comprehensive income	—	—	—	1,311	1,311
Stock-based compensation	—	(32)	—	—	(32)
Cash dividends declared	—	—	(1,278)	—	(1,278)
Balances, June 30, 2019	\$ 128	\$ 65,376	\$ 125,996	\$ (193)	\$ 191,307

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total Stockholders' Equity
Balances, January 1, 2018	\$ 127	\$ 65,256	\$ 99,662	\$ (1,309)	\$ 163,736
Net Income	—	—	4,058	—	4,058
Other comprehensive (loss)	—	—	—	(2,069)	(2,069)
Stock-based compensation	—	143	—	—	143
Cash dividends declared	—	—	(891)	—	(891)
Balances, March 31, 2018	\$ 127	\$ 65,399	\$ 102,829	\$ (3,378)	\$ 164,977
Cumulative effect adjustment (ASU 2016-01)	—	—	(6)	6	—
Net Income	—	—	4,391	—	4,391
Other comprehensive (loss)	—	—	—	(395)	(395)
Stock-based compensation	—	163	—	—	163
Cash dividends declared	—	—	(1,021)	—	(1,021)
Balances, June 30, 2018	\$ 127	\$ 65,562	\$ 106,193	\$ (3,767)	\$ 168,115

See accompanying notes to Consolidated Financial Statements.

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

	For Six Months Ended June 30,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 7,978	\$ 8,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion of acquisition accounting estimates	(262)	(310)
Provision for credit losses	300	907
Depreciation and amortization	1,198	1,030
Net amortization of securities	262	339
Stock-based compensation expense	31	306
Deferred income tax expense	233	558
Losses (gains) on sales and valuation adjustments on other real estate owned	287	(55)
Fair value adjustment on equity securities	(41)	13
Net changes in:		
Accrued interest receivable	(326)	473
Other assets	2,644	(4,532)
Accrued interest payable	(383)	202
Other liabilities	(7,485)	(52)
Net cash provided by operating activities	4,436	7,328
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of investment securities available for sale	12,542	16,979
Proceeds from maturities and principal payments of investment securities held to maturity	150	91
Purchases of equity securities	(15)	(7)
Net change in loans	(45,130)	(63,740)
Purchases of premises and equipment	(545)	(798)
Proceeds from sales of other real estate owned	411	280
Net redemption of restricted securities	1,381	—
Net cash (used in) investing activities	(31,206)	(47,195)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net changes in:		
Noninterest-bearing deposits	16,450	(1,688)
Interest-bearing deposits	20,323	(25,881)
Short-term borrowings	(35,304)	81,007
Common stock dividends paid	(2,556)	(1,912)
Repurchase of shares for tax withholding on exercised options and vested restricted stock	(88)	—
Net cash (used in) provided by financing activities	(1,175)	51,526
Net (decrease) increase in cash and cash equivalents	(27,945)	11,659
Cash and cash equivalents at beginning of period	67,225	31,820
Cash and cash equivalents at end of period	\$ 39,280	\$ 43,479
Supplemental cash flows information:		
Interest paid	\$ 5,219	\$ 1,726
Income taxes paid	\$ 9,669	\$ 2,825
Lease liabilities arising from right-of-use assets	\$ 3,877	\$ —
Unrealized gain (loss) on securities available for sale	\$ 3,780	\$ (3,416)
Amortization of unrealized loss on securities transferred from available for sale to held to maturity	\$ 14	\$ 15

See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.
Notes to Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2019 and 2018
(Unaudited)

Note 1 – Basis of Presentation

The consolidated financial statements include the accounts of Shore Bancshares, Inc. and its subsidiaries with all significant intercompany transactions eliminated. The consolidated financial statements conform to accounting principles generally accepted in the United States of America (“GAAP”) and to prevailing practices within the banking industry. The accompanying interim financial statements are unaudited; however, in the opinion of management all adjustments necessary to present fairly the consolidated financial position at June 30, 2019, the consolidated results of income and comprehensive income for the three and six months ended June 30, 2019 and 2018, and changes in stockholders’ equity and cash flows for the six months ended June 30, 2019 and 2018, have been included. All such adjustments are of a normal recurring nature. The amounts as of December 31, 2018 were derived from the 2018 audited financial statements. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results to be expected for any other interim period or for the full year. This Quarterly Report on Form 10-Q should be read in conjunction with the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2018. For purposes of comparability, certain immaterial reclassifications have been made to amounts previously reported to conform with the current period presentation.

When used in these notes, the term “the Company” refers to Shore Bancshares, Inc. and, unless the context requires otherwise, its consolidated subsidiary.

Recent Accounting Standards

ASU No. 2016-13 - In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Based on FASB’s July 17, 2019 meeting, an exposure draft is expected that, once finalized, could change implementation dates for many companies. The Company believes this ASU will have a significant impact on our consolidated financial statements and the method in which we calculate our credit losses, primarily on loans and held to maturity securities. At this time, the Company has established a project management team which meets periodically to discuss and assign roles and responsibilities, key tasks to complete, and a general time line to be followed for implementation. The team has been working with an advisory consultant and has purchased a vendor model for implementation. Historical data has been collected and uploaded to the new model and the team is in the process of finalizing the methodologies that will be utilized. The team is currently running a parallel simulation to its current incurred loss impairment model. The Company is continuing to evaluate the extent of the potential impact of this standard and continues to keep current on evolving interpretations and industry practices via webcasts, publications, conferences, and peer bank meetings.

ASU No. 2017-04 – In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”. The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are U.S.

Securities and Exchange Commission (SEC) filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The guidance is not expected to have a significant impact on the Company's financial positions, results of operations or disclosures.

ASU No. 2018-13 – In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement.” The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company's Consolidated Financial Statements.

ASU No. 2019-04 – In April 2019, the FASB issued ASU 2019-04, “Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments.” This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various TRG Meetings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-04 will have on its (consolidated) financial statements.

ASU No. 2019-05 - In May 2019, the FASB issued ASU 2019-05, “Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief.” The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the balance sheet. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-04 will have on its (consolidated) financial statements.

Note 2 – Sale of Subsidiary

Avon-Dixon Agency Sale

On December 31, 2018, the Company completed the sale of the specific assets and activities related to its insurance agency, Avon-Dixon Agency, LLC (“Avon-Dixon”) to Avon-Dixon, an Alera Group Agency, LLC (“Alera”). Also, on this date the Company discontinued the operations of its premium finance company, Mubell Finance, LLC (“Mubell”). Together, Avon-Dixon and Mubell companies are referred to as the “Insurance Subsidiaries”. The Insurance Subsidiaries represented the Company’s insurance products and services segment, the activities of which related to originating, servicing and underwriting retail insurance policies. Assets sold to Alera included various intangible assets and a 40% interest in segregated portfolio of Eastern Re. LTD., a specialty reinsurance company. Mubell, along with certain other assets and liabilities that will be sold or settled separately within one year, is classified as discontinued operations in the accompanying Consolidated Balance Sheets and Consolidated Statements of Income.

The specific assets acquired by Alera include, among other things, the insurance origination offices, insurance expirations, workforce and system procedures, trade names and goodwill. Alera has assumed certain obligations and liabilities of the Company under the acquired leases, and with respect to the employment of transferred employees. The Company received a \$25.2 million cash payment, upon the closing of the transaction.

The following table summarizes the calculation of the net gain on disposal of discontinued operations.

(\$ in thousands)	Year Ended December 31, 2018
Proceeds from the transaction	\$ 29,276
Compensation expense related to the transaction	2,588
Broker fees	935
Other transaction costs	594
Net cash proceeds	25,159
Net assets sold	(12,423)
Net gain on disposal	\$ 12,736

The following tables present the financial information of discontinued operations as of the dates and for the periods indicated:

(\$ in thousands)	June 30, 2019	December 31, 2018
ASSETS		
Goodwill	\$ —	\$ 8
Other assets	—	625
Assets of discontinued operations	\$ —	\$ 633
LIABILITIES		
Accrued expenses and other liabilities	\$ —	\$ 3,323
Liabilities of discontinued operations	\$ —	\$ 3,323

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(\$ in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Noninterest income				
Insurance agency commissions	\$ —	\$ 2,151	\$ —	\$ 4,845
All other income	1	93	15	188
Total noninterest income	1	2,244	15	5,033
Noninterest expense				
Salaries and wages	(3)	1,282	28	2,529
Employee benefits	—	324	7	665
Occupancy expense	(4)	105	14	209
Furniture and equipment	—	28	1	60
Amortization of intangible assets	—	11	—	23
Legal and professional fees	7	18	71	34
Other noninterest expenses	5	207	(3)	465
Total noninterest expense	5	1,975	118	3,985
(Loss) income from discontinued operations before income taxes	(4)	269	(103)	1,048
Income tax (benefit) expense	—	70	(25)	253
(Loss) income from discontinued operations	\$ (4)	\$ 199	\$ (78)	\$ 795

Note 3 – Earnings Per Share

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

(In thousands, except per share data)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Net income from continuing operations	\$ 4,228	\$ 4,192	\$ 8,056	\$ 7,654
Net (loss) income from discontinued operations	(4)	199	(78)	795
Net Income	\$ 4,224	\$ 4,391	\$ 7,978	\$ 8,449
Weighted average shares outstanding - Basic	12,779	12,744	12,774	12,730
Dilutive effect of common stock equivalents-options	5	13	5	13
Weighted average shares outstanding - Diluted	12,784	12,757	12,779	12,743
Basic earnings per common share				
Income from continuing operations	\$ 0.33	\$ 0.33	\$ 0.63	\$ 0.60
(Loss) income from discontinued operations	—	0.01	(0.01)	0.06
Net income	\$ 0.33	\$ 0.34	\$ 0.62	\$ 0.66
Diluted earnings per common share				
Income from continuing operations	\$ 0.33	\$ 0.33	\$ 0.63	\$ 0.60
(Loss) income from discontinued operations	—	0.01	(0.01)	0.06
Net income	\$ 0.33	\$ 0.34	\$ 0.62	\$ 0.66

There were no weighted average common stock equivalents excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2019 and 2018.

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Note 4 – Investment Securities

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

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
June 30, 2019				
U.S. Government agencies	\$ 34,125	\$ 4	\$ 110	\$ 34,019
Mortgage-backed	111,520	361	490	111,391
Total	\$ 145,645	\$ 365	\$ 600	\$ 145,410
December 31, 2018				
U.S. Government agencies	\$ 34,285	\$ 2	\$ 651	\$ 33,636
Mortgage-backed	124,162	115	3,481	120,796
Total	\$ 158,447	\$ 117	\$ 4,132	\$ 154,432
Held-to-maturity securities:				
June 30, 2019				
U.S. Government agencies	\$ 1,504	\$ 10	\$ —	\$ 1,514
States and political subdivisions	1,401	5	—	1,406
Other Debt securities	3,000	—	33	2,967
Total	\$ 5,905	\$ 15	\$ 33	\$ 5,887
December 31, 2018				
U.S. Government agencies	\$ 1,642	\$ —	\$ 25	\$ 1,617
States and political subdivisions	1,401	14	—	1,415
Other Debt securities	3,000	—	32	2,968
Total	\$ 6,043	\$ 14	\$ 57	\$ 6,000

The Company adopted ASU 2016-01 effective January 1, 2018 and equity securities with an aggregate fair value of \$1.3 million at June 30, 2019 and December 31, 2018 are presented separately on the balance sheet. The fair value adjustment recorded through earnings totaled \$41 for the six months ended June 30, 2019 and \$(13) thousand for six months ended June 30, 2018, respectively.

The following tables provide information about gross unrealized losses and fair value by length of time that the individual securities have been in a continuous unrealized loss position at June 30, 2019 and December 31, 2018.

(Dollars in thousands)	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2019						
Available-for-sale securities:						
U.S. Government agencies	\$ —	\$ —	\$ 30,018	\$ 110	\$ 30,018	\$ 110
Mortgage-backed	—	—	59,065	490	59,065	490
Total	\$ —	\$ —	\$ 89,083	\$ 600	\$ 89,083	\$ 600
Held-to-maturity securities:						
Other debt securities	2,967	33	—	—	2,967	33
Total	\$ 2,967	\$ 33	\$ —	\$ —	\$ 2,967	\$ 33

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(Dollars in thousands)	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
Available-for-sale securities:						
U.S. Government agencies	\$ 1,079	\$ 10	\$ 32,362	\$ 641	\$ 33,441	\$ 651
Mortgage-backed	13,981	261	99,904	3,220	113,885	3,481
Total	<u>\$ 15,060</u>	<u>\$ 271</u>	<u>\$ 132,266</u>	<u>\$ 3,861</u>	<u>\$ 147,326</u>	<u>\$ 4,132</u>
Held-to-maturity securities:						
U.S. Government agencies	—	—	1,617	25	1,617	25
Other debt securities	2,968	32	—	—	2,968	32
Total	<u>\$ 2,968</u>	<u>\$ 32</u>	<u>\$ 1,617</u>	<u>\$ 25</u>	<u>\$ 4,585</u>	<u>\$ 57</u>

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. 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 forty-six available-for-sale securities and two held-to-maturity securities in an unrealized loss position at June 30, 2019.

The following table provides information on the amortized cost and estimated fair values of investment securities by maturity date at June 30, 2019.

(Dollars in thousands)	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 5,996	\$ 5,978	\$ 500	\$ 503
Due after one year through five years	28,874	28,780	400	401
Due after five years through ten years	59,748	59,787	3,501	3,469
Due after ten years	51,027	50,865	1,504	1,514
Total	<u>\$ 145,645</u>	<u>\$ 145,410</u>	<u>\$ 5,905</u>	<u>\$ 5,887</u>

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

Note 5 – Loans and Allowance for Credit Losses

The Company makes residential mortgage, commercial and consumer loans to customers primarily in Talbot County, Queen Anne's County, Kent County, Caroline County, Dorchester County, Baltimore County and Howard County in Maryland, Kent County, Delaware and Accomack County, Virginia. The following table provides information about the principal classes of the loan portfolio at June 30, 2019 and December 31, 2018.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Construction	\$ 134,145	\$ 127,572
Residential real estate	430,020	429,560
Commercial real estate	559,568	523,427
Commercial	108,615	107,522
Consumer	7,947	7,274
Total loans	<u>1,240,295</u>	<u>1,195,355</u>
Allowance for credit losses	<u>(10,305)</u>	<u>(10,343)</u>
Total loans, net	<u>\$ 1,229,990</u>	<u>\$ 1,185,012</u>

Loans are stated at their principal amount outstanding net of any purchase premiums/discounts, deferred fees and costs. Loans included deferred costs, net of deferred fees, of \$1.2 million and discounts on acquired loans of \$1.3 million at June 30, 2019. Loans included deferred costs, net of deferred fees, of \$789 thousand and discounts on acquired loans of \$1.4 million at December 31, 2018. At June 30, 2019 and December 31, 2018, included in total loans were \$86.9 million and \$92.8 million in loans, respectively, acquired as part of the NWBI branch acquisition. Interest income 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 to be impaired or when principal or interest is delinquent for 90 days or more, unless the loan is well secured and in the process of collection. Any unpaid interest previously accrued on those loans is reversed from income.

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. 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 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 the loan is collateral dependent. Generally, the Company measures impairment on such loans by reference to the fair value of the collateral. Once the amount of impairment has been determined, the uncollectible portion is charged off. Loan payments received on nonaccrual impaired loans are generally applied to the outstanding principal balance. In certain circumstances, income may be recognized on a cash basis. Generally, interest income is not recognized on impaired loans unless the likelihood of further loss is remote. The allowance for credit losses may include specific reserves related to impaired loans. Specific reserves remain until charge offs are made. Impaired loans do not include groups of smaller balance homogenous loans such as residential mortgage and consumer installment loans that are evaluated collectively for impairment. Reserves for probable credit losses related to these loans are based on historical loss ratios and are included in the formula portion of the allowance for credit losses. See additional discussion under the caption "Critical Accounting Policies" in Management's Discussion and Analysis of Financial Condition and Results of Operations.

A loan is 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, Shore United Bank (the "Bank"), 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.

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.

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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 nonowner 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. Nonowner 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.

The following tables include impairment information relating to loans and the allowance for credit losses as of June 30, 2019 and December 31, 2018.

(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
June 30, 2019						
Loans individually evaluated for impairment	\$ 1,494	\$ 6,761	\$ 13,794	\$ 311	\$ —	\$ 22,360
Loans collectively evaluated for impairment	132,651	423,259	545,774	108,304	7,947	1,217,935
Total loans	\$ 134,145	\$ 430,020	\$ 559,568	\$ 108,615	\$ 7,947	\$ 1,240,295
Allowance for credit losses allocated to:						
Loans individually evaluated for impairment	\$ 152	\$ 230	\$ 272	\$ 7	\$ —	\$ 661
Loans collectively evaluated for impairment	2,291	1,925	3,095	2,050	283	9,644
Total allowance	\$ 2,443	\$ 2,155	\$ 3,367	\$ 2,057	\$ 283	\$ 10,305

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(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
December 31, 2018						
Loans individually evaluated for impairment	\$ 2,893	\$ 8,553	\$ 13,532	\$ 340	\$ —	\$ 25,318
Loans collectively evaluated for impairment	124,679	421,007	509,895	107,182	7,274	1,170,037
Total loans	<u>\$ 127,572</u>	<u>\$ 429,560</u>	<u>\$ 523,427</u>	<u>\$ 107,522</u>	<u>\$ 7,274</u>	<u>\$ 1,195,355</u>
Allowance for credit losses allocated to:						
Loans individually evaluated for impairment	\$ 320	\$ 301	\$ 104	\$ 36	\$ —	\$ 761
Loans collectively evaluated for impairment	2,342	2,052	2,973	1,913	302	9,582
Total allowance	<u>\$ 2,662</u>	<u>\$ 2,353</u>	<u>\$ 3,077</u>	<u>\$ 1,949</u>	<u>\$ 302</u>	<u>\$ 10,343</u>

The following tables provide information on impaired loans and any related allowance by loan class as of June 30, 2019 and December 31, 2018. The difference between the unpaid principal balance and the recorded investment is the amount of partial charge-offs that have been taken and interest paid on nonaccrual loans that has been applied to principal.

(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	June 30, 2019		
					Quarter-to-date average recorded investment	Average recorded investment	Interest recorded investment
June 30, 2019							
Impaired nonaccrual loans:							
Construction	\$ 1,581	—	1,449	152	1,515	2,153	—
Residential real estate	3,035	2,549	—	—	2,730	3,034	—
Commercial real estate	10,949	8,956	1,327	247	9,613	9,466	—
Commercial	425	—	311	7	314	319	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 15,990</u>	<u>\$ 11,505</u>	<u>\$ 3,087</u>	<u>\$ 406</u>	<u>\$ 14,172</u>	<u>\$ 14,972</u>	<u>\$ —</u>
Impaired accruing TDRs:							
Construction	\$ 45	\$ 45	—	—	\$ 47	\$ 48	\$ 8
Residential real estate	4,212	1,228	2,984	230	4,219	4,263	81
Commercial real estate	3,511	2,822	689	25	3,516	3,533	66
Commercial	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 7,768</u>	<u>\$ 4,095</u>	<u>\$ 3,673</u>	<u>\$ 255</u>	<u>\$ 7,782</u>	<u>\$ 7,844</u>	<u>\$ 155</u>
Total impaired loans:							
Construction	\$ 1,626	\$ 45	\$ 1,449	\$ 152	\$ 1,562	\$ 2,201	\$ 8
Residential real estate	7,247	3,777	2,984	230	6,949	7,297	81
Commercial real estate	14,460	11,778	2,016	272	13,129	12,999	66
Commercial	425	—	311	7	314	319	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 23,758</u>	<u>\$ 15,600</u>	<u>\$ 6,760</u>	<u>\$ 661</u>	<u>\$ 21,954</u>	<u>\$ 22,816</u>	<u>\$ 155</u>

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(Dollars in thousands)	Unpaid principal balance	Recorded investment with no allowance	Recorded investment with an allowance	Related allowance	June 30, 2018		
					Quarter-to-date average recorded investment	Average recorded investment	Interest income recognized
December 31, 2018							
Impaired nonaccrual loans:							
Construction	\$ 3,219	\$ 127	\$ 2,715	\$ 320	\$ 2,982	\$ 2,987	\$ —
Residential real estate	4,281	2,605	1,494	118	1,590	1,504	—
Commercial real estate	10,029	9,307	67	67	1,853	1,286	—
Commercial	445	—	340	36	332	344	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 17,974</u>	<u>\$ 12,039</u>	<u>\$ 4,616</u>	<u>\$ 541</u>	<u>\$ 6,757</u>	<u>\$ 6,121</u>	<u>\$ —</u>
Impaired accruing TDRs:							
Construction	\$ 51	\$ 51	\$ —	\$ —	\$ 291	\$ 1,634	\$ 13
Residential real estate	4,454	1,440	3,014	183	4,839	4,565	46
Commercial real estate	4,158	1,286	2,872	37	4,541	4,596	41
Commercial	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 8,663</u>	<u>\$ 2,777</u>	<u>\$ 5,886</u>	<u>\$ 220</u>	<u>\$ 9,671</u>	<u>\$ 10,795</u>	<u>\$ 100</u>
Total impaired loans:							
Construction	\$ 3,270	\$ 178	\$ 2,715	\$ 320	\$ 3,273	\$ 4,621	\$ 13
Residential real estate	8,735	4,045	4,508	301	6,429	6,069	46
Commercial real estate	14,187	10,593	2,939	104	6,394	5,882	41
Commercial	445	—	340	36	332	344	—
Consumer	—	—	—	—	—	—	—
Total	<u>\$ 26,637</u>	<u>\$ 14,816</u>	<u>\$ 10,502</u>	<u>\$ 761</u>	<u>\$ 16,428</u>	<u>\$ 16,916</u>	<u>\$ 100</u>

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The following tables provide a roll-forward for TDRs as of June 30, 2019 and June 30, 2018.

(Dollars in thousands)	1/1/2019 TDR Balance	New TDRs	Disbursements (Payments)	Charge- offs	Reclassifications/ Transfer In/(Out)	Payoffs	6/30/2019 TDR Balance	Related Allowance
For six months ended								
June 30, 2019								
Accruing TDRs								
Construction	\$ 51	\$ —	\$ (6)	\$ —	\$ —	\$ —	\$ 45	\$ —
Residential real estate	4,454	—	(45)	—	—	(197)	4,212	230
Commercial real estate	4,158	—	(647)	—	—	—	3,511	25
Commercial	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	\$ 8,663	\$ —	\$ (698)	\$ —	\$ —	\$ (197)	\$ 7,768	\$ 255
Nonaccrual TDRs								
Construction	\$ 2,798	\$ —	\$ (1,346)	\$ (3)	\$ —	\$ —	\$ 1,449	\$ 152
Residential real estate	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	—	—
Commercial	320	—	(9)	—	—	—	311	7
Consumer	—	—	—	—	—	—	—	—
Total	\$ 3,118	\$ —	\$ (1,355)	\$ (3)	\$ —	\$ —	\$ 1,760	\$ 159
Total	\$ 11,781	\$ —	\$ (2,053)	\$ (3)	\$ —	\$ (197)	\$ 9,528	\$ 414
For six months ended								
June 30, 2018								
Accruing TDRs								
Construction	\$ 3,972	\$ —	\$ (6)	\$ (379)	\$ —	\$ (2,600)	\$ 987	\$ —
Residential real estate	4,536	—	(42)	—	(154)	(237)	4,103	—
Commercial real estate	4,818	—	(69)	—	—	(219)	4,530	—
Commercial	—	—	—	—	—	—	—	—
Consumer	—	—	—	—	—	—	—	—
Total	\$ 13,326	\$ —	\$ (117)	\$ (379)	\$ (154)	\$ (3,056)	\$ 9,620	\$ —
Nonaccrual TDRs								
Construction	\$ 2,878	\$ —	\$ (40)	\$ —	\$ —	\$ —	\$ 2,838	\$ 392
Residential real estate	—	—	—	—	154	—	154	—
Commercial real estate	83	—	—	—	—	—	83	—
Commercial	337	—	(4)	—	—	—	333	29
Consumer	—	—	—	—	—	—	—	—
Total	\$ 3,298	\$ —	\$ (44)	\$ —	\$ 154	\$ —	\$ 3,408	\$ 421
Total	\$ 16,624	\$ —	\$ (161)	\$ (379)	\$ —	\$ (3,056)	\$ 13,028	\$ 421

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The following tables provide information on TDRs that defaulted within twelve months of restructuring during the six months ended June 30, 2019 and June 30, 2018. There were no defaults during the three months ended June 30, 2019 and 2018. 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.

(Dollars in thousands)	Number of contracts	Recorded investment	Related allowance
TDRs that subsequently defaulted:			
For six months ended			
June 30, 2019			
Construction	—	\$ —	\$ —
Residential real estate	—	—	—
Commercial real estate	—	—	—
Commercial	—	—	—
Consumer	—	—	—
Total	—	\$ —	\$ —
For six months ended			
June 30, 2018			
Construction	1	\$ 379	\$ —
Residential real estate	1	154	—
Commercial real estate	—	—	—
Commercial	—	—	—
Consumer	—	—	—
Total	2	\$ 533	\$ —

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 June 30, 2019, there were no nonaccrual loans classified as special mention or doubtful and \$14.6 million of nonaccrual loans were classified as substandard. Similarly, at December 31, 2018, there were no nonaccrual loans classified as special mention or doubtful and \$16.7 million of nonaccrual loans were classified as substandard.

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The following tables provide information on loan risk ratings as of June 30, 2019 and December 31, 2018.

(Dollars in thousands)	Pass/Performing	Pass/Watch	Special Mention	Substandard	Doubtful	Total
June 30, 2019						
Construction	\$ 104,892	\$ 25,633	\$ 2,153	\$ 1,467	\$ —	\$ 134,145
Residential real estate	390,307	32,098	3,878	3,737	—	430,020
Commercial real estate	426,909	111,664	5,749	15,246	—	559,568
Commercial	88,611	19,335	324	345	—	108,615
Consumer	7,528	416	—	3	—	7,947
Total	\$ 1,018,247	\$ 189,146	\$ 12,104	\$ 20,798	\$ —	\$ 1,240,295

(Dollars in thousands)	Pass/Performing	Pass/Watch	Special Mention	Substandard	Doubtful	Total
December 31, 2018						
Construction	\$ 93,977	\$ 30,735	\$ —	\$ 2,860	\$ —	\$ 127,572
Residential real estate	386,553	33,739	3,769	5,499	—	429,560
Commercial real estate	389,219	113,873	4,515	15,820	—	523,427
Commercial	90,777	15,727	642	376	—	107,522
Consumer	6,805	466	—	3	—	7,274
Total	\$ 967,331	\$ 194,540	\$ 8,926	\$ 24,558	\$ —	\$ 1,195,355

The following tables provide information on the aging of the loan portfolio as of June 30, 2019 and December 31, 2018.

(Dollars in thousands)	Accruing					Nonaccrual	Total
	Current	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due		
June 30, 2019							
Construction	\$ 132,478	\$ —	\$ 218	\$ —	\$ 218	\$ 1,449	\$ 134,145
Residential real estate	423,119	3,088	1,112	152	4,352	2,549	430,020
Commercial real estate	545,125	1,657	2,225	278	4,160	10,283	559,568
Commercial	107,534	471	290	9	770	311	108,615
Consumer	7,925	1	21	—	22	—	7,947
Total	\$ 1,216,181	\$ 5,217	\$ 3,866	\$ 439	\$ 9,522	\$ 14,592	\$ 1,240,295
Percent of total loans	98.1 %	0.4 %	0.3 %	— %	0.7 %	1.2 %	100.0 %

(Dollars in thousands)	Accruing					Nonaccrual	Total
	Current	30-59 days past due	60-89 days past due	Greater than 90 days	Total past due		
December 31, 2018							
Construction	\$ 124,535	\$ 195	\$ —	\$ —	\$ 195	\$ 2,842	\$ 127,572
Residential real estate	423,732	1,384	206	139	1,729	4,099	429,560
Commercial real estate	512,252	253	1,548	—	1,801	9,374	523,427
Commercial	107,089	83	10	—	93	340	107,522
Consumer	7,238	30	6	—	36	—	7,274
Total	\$ 1,174,846	\$ 1,945	\$ 1,770	\$ 139	\$ 3,854	\$ 16,655	\$ 1,195,355
Percent of total loans	98.3 %	0.2 %	0.1 %	— %	0.3 %	1.4 %	100.0 %

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The following tables provide a summary of the activity in the allowance for credit losses allocated by loan class for the three and six months ended June 30, 2019 and June 30, 2018. 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 three months ended June 30, 2019						
Allowance for credit losses:						
Beginning Balance	\$ 2,657	\$ 2,433	\$ 3,057	\$ 2,009	\$ 262	\$ 10,418
Charge-offs	(3)	(300)	—	(81)	(23)	(407)
Recoveries	4	3	8	77	2	94
Net charge-offs	1	(297)	8	(4)	(21)	(313)
Provision	(215)	19	302	52	42	200
Ending Balance	<u>\$ 2,443</u>	<u>\$ 2,155</u>	<u>\$ 3,367</u>	<u>\$ 2,057</u>	<u>\$ 283</u>	<u>\$ 10,305</u>
For three months ended June 30, 2018						
Allowance for credit losses:						
Beginning Balance	\$ 2,541	\$ 2,359	\$ 2,643	\$ 2,027	\$ 217	\$ 9,787
Charge-offs	—	(41)	—	(126)	(14)	(181)
Recoveries	6	73	8	10	—	97
Net charge-offs	6	32	8	(116)	(14)	(84)
Provision	46	(241)	194	299	120	418
Ending Balance	<u>\$ 2,593</u>	<u>\$ 2,150</u>	<u>\$ 2,845</u>	<u>\$ 2,210</u>	<u>\$ 323</u>	<u>\$ 10,121</u>

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(Dollars in thousands)	Construction	Residential real estate	Commercial real estate	Commercial	Consumer	Total
For six months ended June 30, 2019						
Allowance for credit losses:						
Beginning Balance	\$ 2,662	\$ 2,353	\$ 3,077	\$ 1,949	\$ 302	\$ 10,343
Charge-offs	(3)	(423)	—	(162)	(29)	(617)
Recoveries	7	11	107	152	2	279
Net charge-offs	4	(412)	107	(10)	(27)	(338)
Provision	(223)	214	183	118	8	300
Ending Balance	\$ 2,443	\$ 2,155	\$ 3,367	\$ 2,057	\$ 283	\$ 10,305
For six months ended June 30, 2018						
Allowance for credit losses:						
Beginning Balance	\$ 2,460	\$ 2,284	\$ 2,594	\$ 2,241	\$ 202	\$ 9,781
Charge-offs	(379)	(179)	—	(126)	(24)	(708)
Recoveries	15	86	18	22	—	141
Net charge-offs	(364)	(93)	18	(104)	(24)	(567)
Provision	497	(41)	233	73	145	907
Ending Balance	\$ 2,593	\$ 2,150	\$ 2,845	\$ 2,210	\$ 323	\$ 10,121

Foreclosure Proceedings

Consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure totaled \$961 thousand as of June 30, 2019 and \$949 as of December 31, 2018, respectively. There were no residential real estate properties included in the balance of other real estate owned at June 30, 2019 and December 31, 2018.

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 June 30, 2019 and December 31, 2018.

Note 6 – Leases

On January 1, 2019, the Company adopted ASU No. 2016-02 “*Leases (Topic 842)*” and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. As stated in the Company’s 2018 Form 10-K, the implementation of the new standard resulted in recognition of right-of-use assets and lease liabilities totaling \$3.8 million at the date of adoption, which are related to the Company’s lease of premises used in operations.

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

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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 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.

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

(Dollars in thousands)	June 30, 2019	
Lease liabilities	\$	3,663
Right-of-use assets	\$	3,663
Weighted average remaining lease term		11.55 years
Weighted average discount rate		3.49 %

	For the three months ended	For the six months ended
	June 30, 2019	June 30, 2019
Lease cost (in thousands)		
Operating lease cost	\$ 155	\$ 294
Short-term lease cost	—	—
Total lease cost	\$ 155	\$ 294
Cash paid for amounts included in the measurement of lease liabilities	\$ 144	\$ 287

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

	As of	
Lease payments due (in thousands)	June 30, 2019	
Six months ending December 31, 2019	\$	289
Twelve months ending December 31, 2020		480
Twelve months ending December 31, 2021		417
Twelve months ending December 31, 2022		404
Twelve months ending December 31, 2023		381
Twelve months ending December 31, 2024		371
Thereafter		2,156
Total undiscounted cash flows	\$	4,498
Discount		835
Lease liabilities	\$	3,663

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Note 7 – Goodwill and Other Intangibles

The following table provides information on the significant components of goodwill and other acquired intangible assets at June 30, 2019 and December 31, 2018.

June 30, 2019					
(Dollars in thousands)	Gross Carrying Amount	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (in years)
Goodwill	\$ 19,728	\$ (1,543)	\$ (667)	\$ 17,518	—
Other intangible assets					
Amortizable					
Core deposit intangible	\$ 3,954	\$ —	\$ (1,414)	\$ 2,540	6.5
Total other intangible assets	\$ 3,954	\$ —	\$ (1,414)	\$ 2,540	
December 31, 2018					
(Dollars in thousands)	Gross Carrying Amount	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (in years)
Goodwill	\$ 19,728	\$ (1,543)	\$ (667)	\$ 17,518	—
Other intangible assets					
Amortizable					
Core deposit intangible	\$ 3,954	\$ —	\$ (1,097)	\$ 2,857	7.2
Total other intangible assets	\$ 3,954	\$ —	\$ (1,097)	\$ 2,857	

The aggregate amortization expense included in continuing operations was \$317 thousand for June 30, 2019 and \$350 thousand for June 30, 2018.

At June 30, 2019, estimated future remaining amortization for amortizing intangibles within the years ending December 31, is as follows:

(Dollars in thousands)	Amortization Expense
2019	\$ 288
2020	533
2021	461
2022	389
2023	317
2024	246
Thereafter	306
Total amortizing intangible assets	\$ 2,540

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Note 8 – Other Assets

The Company had the following other assets at June 30, 2019 and December 31, 2018 excluding discontinued operations.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Accrued interest receivable	3,671	3,345
Deferred income taxes	2,912	4,182
Prepaid expenses	1,186	1,067
Cash surrender value on life insurance	3,752	3,726
Income taxes receivable	781	—
Other assets	2,300	5,358
Total	<u>\$ 14,602</u>	<u>\$ 17,678</u>

The following table provides information on significant components of the Company's deferred tax assets and liabilities as of June 30, 2019 and December 31, 2018.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Deferred tax assets:		
Allowance for credit losses	\$ 2,815	\$ 2,797
Reserve for off-balance sheet commitments	81	81
Net operating loss carry forward	33	—
Write-downs of other real estate owned	45	273
Nonaccrual loan interest	345	260
Unrealized losses on available-for-sale securities	72	1,105
Unrealized losses on available-for-sale securities transferred to held to maturity	8	12
Other	464	524
Total deferred tax assets	<u>3,863</u>	<u>5,052</u>
Deferred tax liabilities:		
Depreciation	200	238
Amortization on loans FMV adjustment	52	60
Acquisition accounting adjustments	381	247
Deferred capital gain on branch sale	197	200
Other	121	125
Total deferred tax liabilities	<u>951</u>	<u>870</u>
Net deferred tax assets	<u>\$ 2,912</u>	<u>\$ 4,182</u>

Note 9 – Other Liabilities

The Company had the following other liabilities at June 30, 2019 and December 31, 2018 excluding discontinued operations.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Accrued interest payable	\$ 221	\$ 604
Other accounts payable	1,616	3,213
Deferred compensation liability	962	1,040
Income taxes payable	—	3,454
Other liabilities	1,285	104
Total	<u>\$ 4,084</u>	<u>\$ 8,415</u>

Note 10 - Stock-Based Compensation

At the 2016 annual meeting, stockholders approved the Shore Bancshares, Inc. 2016 Stock and Incentive Plan (“2016 Equity Plan”), replacing the Shore Bancshares, Inc. 2006 Stock and Incentive Plan (“2006 Equity Plan”), which expired on that date. The Company may issue shares of common stock or grant other equity-based awards pursuant to the 2016 Equity Plan. Stock-based awards granted to date generally are time-based, vest in equal installments on each anniversary of the grant date and range over a one- to five-year period of time, and, in the case of stock options, expire 10 years from the grant date. As part of the 2016 Equity Plan, a performance equity incentive award program, known as the “Long-term incentive plan” allows participating officers of the Company to earn incentive awards of performance share/restricted stock units if certain pre-determined targets are achieved at the end of a three-year performance cycle. Stock-based compensation expense based on the grant date fair value is recognized ratably over the requisite service period for all awards and reflects forfeitures as they occur. The 2016 Equity Plan originally reserved 750,000 shares of common stock for grant, and 636,465 shares remained available for grant at June 30, 2019.

The following tables provide information on stock-based compensation expense for the three and six months ended June 30, 2019 and 2018.

(Dollars in thousands)	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2019	2018	2019	2018
Stock-based compensation expense	\$ (32)	\$ 163	\$ 31	\$ 306
Excess tax benefits related to stock-based compensation	3	11	3	146

(Dollars in thousands)	As of June 30,	
	2019	2018
Unrecognized stock-based compensation expense	\$ 150	\$ 677
Weighted average period unrecognized expense is expected to be recognized	0.1 years	1.0 years

The following table summarizes restricted stock award activity for the Company under the 2016 Equity Plan for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30, 2019	
	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	—	\$ —
Granted	15,702	15.36
Vested	—	—
Cancelled	—	—
Nonvested at end of period	15,702	\$ 15.36

The fair value of restricted stock awards that vested during the first six months of 2019 and 2018 was \$0 and \$133 thousand, respectively.

Restricted stock units (RSUs) are similar to restricted stock, except the recipient does not receive the stock immediately, but instead receives it upon the terms and conditions of the Company’s long-term incentive plans which are subject to performance milestones achieved at the end of a three-year period. Each RSU cliff vests at the end of the three-year period and entitles the recipient to receive one share of common stock on a specified issuance date. The recipient does not have any stockholder rights, including voting rights, with respect to the shares underlying awarded RSUs until the recipient becomes the holder of those shares.

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In the second quarter of 2019, the Long-Term Incentive Plan culminating December 31, 2020 was terminated by the Board's Compensation Committee and all outstanding RSUs were forfeited as presented in the table below. To replace this compensation incentive plan, the Compensation Committee elected to institute individual Supplemental Executive Retirement Plans ("SERPs") which will be executed in the beginning of 2020, with the exception of three SERPs which began on July 19, 2019 for Lloyd L. Beatty, Jr., President and Chief Executive Officer, Edward C. Allen, Executive Vice President and Chief Financial Officer and Donna J. Stevens, Executive Vice President and Chief Operating Officer. These individuals also forfeited their RSUs in the LTI culminating December 31, 2019. More information about these SERP agreements can be found in Footnote 15 – Subsequent Events.

During 2017, the Company entered into a long-term incentive plan agreement with officers of the Company and its subsidiaries to award RSUs based on a performance metric to be achieved as of December 31, 2019. Assuming the performance metric is achieved, these awards will cliff vest on this date, in which the final number of common shares to be issued will be determined. The range of RSUs which could potentially be awarded at the end of the performance cycle is between 6,178 shares and 24,726 shares, assuming a certain performance metric is met. The table below presents management's evaluation of the probable number of common stock awards to be issued at the end of the performance cycle.

During 2016, the Company entered into a long-term incentive plan agreement with officers of the Company and its subsidiaries to award RSUs based on a performance metric to be achieved as of December 31, 2018. Based on the results for the year ended December 31, 2018, 15,577 shares were vested.

The following table summarizes restricted stock units activity based on management's evaluation of the probable number of common stock awards to be issued at the end of the performance cycle for the Company under the 2016 Equity Plan for the six months ended June 30, 2019.

	Six Months Ended June 30, 2019	
	Number of Shares	Weighted Average Grant Date Fair Value
Outstanding at beginning of period	38,562	\$ 14.69
Granted	—	—
Vested	(15,577)	11.68
Forfeited	(16,807)	16.78
Outstanding at end of period	6,178	\$ 16.57

The fair value of restricted stock units that vested during the first six months of 2019 and 2018 was \$237 thousand and \$695 thousand.

The following table summarizes stock option activity for the Company under the 2016 Equity Plan for the six months ended June 30, 2019 and 2018.

	Six Months Ended June 30, 2019	
	Number of Shares	Weighted Average Grant Date Exercise Price
Outstanding at beginning of period	27,249	\$ 9.68
Granted	—	—
Exercised	(15,578)	10.01
Expired/Cancelled	—	—
Outstanding at end of period	11,671	\$ 9.25
Exercisable at end of period	11,671	\$ 9.25

There were no stock options granted during the three and six months ended June 30, 2019 and June 30, 2018. The Company estimates the fair value of options using the Black-Scholes valuation model with weighted average assumptions for

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dividend yield, expected volatility, risk-free interest rate and expected lives (in years). The expected dividend yield is calculated by dividing the total expected annual dividend payout by the average stock price. The expected volatility is based on historical volatility of the underlying securities. The risk-free interest rate is based on the Federal Reserve Bank's constant maturities daily interest rate in effect at grant date. The expected contract life of the options represents the period of time that the Company expects the awards to be outstanding based on historical experience with similar awards.

At the end of the second quarter of 2019, the aggregate intrinsic value of the options outstanding under the 2016 Equity Plan was \$83 thousand based on the \$16.34 market value per share of the Company's common stock at June 30, 2019. Similarly, the aggregate intrinsic value of the options exercisable was \$83 thousand at June 30, 2019. The intrinsic value on options exercised during the six months ended June 30, 2019 was \$72 thousand based on the \$14.66 market value per share of the Company's common stock at January 15, 2019. The intrinsic value on options exercised in 2018 was \$365 thousand based on the \$17.92 market value per share of the Company's common stock at January 31, 2018. At June 30, 2019, the weighted average remaining contract life of options outstanding and exercisable was 5.3 years.

Note 11 – Accumulated Other Comprehensive Income

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 six months ended June 30, 2019 and 2018.

(Dollars in thousands)	Unrealized gains (losses) on available for sale securities	Unrealized gains (losses) on securities transferred from Available-for-sale to Held-to-maturity	Accumulated other comprehensive (loss)
Balance, December 31, 2018	\$ (2,918)	\$ (32)	\$ (2,950)
Other comprehensive income	2,747	10	2,757
Balance, June 30, 2019	\$ (171)	\$ (22)	\$ (193)
Balance, December 31, 2017	\$ (1,255)	\$ (54)	\$ (1,309)
Cumulative effect adjustment (ASU 2016-01)	6	—	6
Other comprehensive income	(2,474)	10	(2,464)
Balances, June 30, 2018	\$ (3,723)	\$ (44)	\$ (3,767)

Note 12 – 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 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 (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.

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

Investment Securities Available for Sale

Fair value measurement for investment securities 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 resources. Although these securities have readily available fair market values, the Company determined that they should be classified as level 2 investments in the fair value hierarchy due to not being considered traded in a highly active market.

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The tables below present the recorded amount of assets measured at fair value on a recurring basis at June 30, 2019 and December 31, 2018. No assets were transferred from one hierarchy level to another during the first six months of 2019 or 2018.

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2019				
Securities available for sale:				
U.S. Government agencies	\$ 34,019	\$ —	\$ 34,019	\$ —
Mortgage-backed	111,391	—	111,391	—
	145,410	—	145,410	—
Equity	1,325	—	1,325	—
Total	\$ 146,735	\$ —	\$ 146,735	\$ —
(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2018				
Securities available for sale:				
U.S. Government agencies	\$ 33,636	\$ —	\$ 33,636	\$ —
Mortgage-backed	120,796	—	120,796	—
	154,432	—	154,432	—
Equity	1,269	—	1,269	—
Total	\$ 155,701	\$ —	\$ 155,701	\$ —

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

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts according to the contractual terms of the loan agreement when due. Loan impairment is measured using the present value of expected cash flows, the loan's observable market price or the fair value of the collateral (less selling costs) if the loans are collateral dependent and these are considered Level 3 in 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 (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 and 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

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asset as a non-recurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods.

The tables below present the recorded amount of assets measured at fair value on a nonrecurring basis at June 30, 2019 and December 31, 2018.

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range
June 30, 2019				
Nonrecurring measurements:				
Impaired loans	\$ 1,994	Appraisal of collateral	(1) Appraisal adjustments Liquidation expense	(2) 0% - 17% (2) 0% - 10%
Impaired loans	\$ 4,105	Discounted cash flow analysis	(1) Discount rate	4% - 7.25%
Other real estate owned	\$ 524	Appraisal of collateral	(1) Appraisal adjustments Liquidation expense	(2) 15% - 40% (2) 5% - 10%

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique	Unobservable Input	Range
December 31, 2018				
Nonrecurring measurements:				
Impaired loans	\$ 3,839	Appraisal of collateral	(1) Appraisal adjustments Liquidation expense	(2) 0% - 17% (2) 0% - 10%
Impaired loans	\$ 5,902	Discounted cash flow analysis	(1) Discount rate	4% - 7.25%
Other real estate owned	\$ 1,222	Appraisal of collateral	(1) Appraisal adjustments Liquidation expense	(2) 15% - 40% (2) 5% - 10%

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

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The carrying amounts and estimated fair values of the Company's financial instruments not carried at fair value on the Company's Consolidated Balance Sheets are presented in the following table. Fair values for June 30, 2019 and December 31, 2018 were estimated using an exit price notion.

	June 30, 2019		December 31, 2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
(Dollars in thousands)				
Financial assets				
Level 1 inputs				
Cash and cash equivalents	\$ 39,280	\$ 39,280	\$ 67,225	\$ 67,225
Level 2 inputs				
Investment securities held to maturity	\$ 5,905	\$ 5,887	\$ 6,043	\$ 6,000
Restricted securities	5,095	5,095	6,476	6,476
Cash surrender value on life insurance	3,752	3,752	3,726	3,726
Level 3 inputs				
Loans, net	\$ 1,229,990	\$ 1,222,190	\$ 1,185,012	\$ 1,150,418
Financial liabilities				
Level 2 inputs				
Deposits:				
Noninterest-bearing demand	\$ 346,916	\$ 346,916	\$ 330,466	\$ 330,466
Checking plus interest	232,123	232,123	239,809	239,809
Money market	239,942	239,942	232,613	232,613
Savings	142,497	142,497	148,723	148,723
Club	1,142	1,142	387	387
Brokered Deposits	19,998	19,997	22,084	22,075
Certificates of deposit, \$100,000 or more	117,855	117,968	97,905	96,435
Other time	148,527	148,125	140,354	136,292
Short-term borrowings	25,508	25,508	60,812	60,812
Long-term borrowings	15,000	15,021	15,000	15,012

Note 13 – Financial Instruments with Off-Balance Sheet Risk

In the normal course of business, to meet the financial needs of its customers, the Bank is a party to financial instruments with off-balance sheet risk. These financial instruments include commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Letters of credit and other commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the letters of credit and commitments are expected to expire without being drawn upon, the total commitment amount does not necessarily represent future cash requirements.

The following table provides information on commitments outstanding at June 30, 2019 and December 31, 2018.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Commitments to extend credit	\$ 223,777	\$ 210,463
Letters of credit	5,967	6,917
Total	\$ 229,744	\$ 217,380

Note 14 – Revenue Recognition

On January 1, 2018, the Company adopted ASU No. 2014-09 “*Revenue from Contracts with Customers*” (Topic 606) and all subsequent ASUs that modified Topic 606. The implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

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. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company’s revenue is generated from contracts with customers. 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.

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 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

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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 continuing operations, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 30, 2019 and 2018.

(Dollars in thousands)	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2019	2018	2019	2018
Noninterest Income				
<i>In-scope of Topic 606:</i>				
Service charges on deposit accounts	\$ 1,028	\$ 947	\$ 1,962	\$ 1,852
Trust and investment fee income	385	414	757	814
Other noninterest income	1,146	915	1,986	1,725
Noninterest Income (in-scope of Topic 606)	2,559	2,276	4,705	4,391
Noninterest Income (out-of-scope of Topic 606)	50	20	92	45
Total Noninterest Income	\$ 2,609	\$ 2,296	\$ 4,797	\$ 4,436

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 June 30, 2019 and December 31, 2018, the Company did not have any significant contract balances.

Note 15 – Subsequent Events

On July 19, 2019, the Company entered into individual SERPs for the following Named Executive Officers: Lloyd L. Beatty, Jr. President and Chief Executive Officer, Edward C. Allen, Executive Vice President and Chief Financial Officer and Donna J. Stevens, Executive Vice President and Chief Operating Officer. Also, on this day the Bank purchased \$14 million in BOLI which will be used to fund contributions to these SERPs in future years. These SERPs were created to replace the 2019 and 2020 Long-term Incentive Plans in which these officers forfeited their rights to receive shares of the Company's common stock. More information and copies of these agreements were filed on July 25, 2019 in the form of a Current Report on 8-K and have been included as exhibits herein for reference.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Unless the context clearly suggests otherwise, references to “the Company”, “we”, “our”, and “us” in the remainder of this report are to Shore Bancshares, Inc. and its consolidated subsidiaries.

Forward-Looking Information

Portions of this Quarterly Report on Form 10-Q contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature, including statements that include the words “anticipate”, “estimate”, “should”, “expect”, “believe”, “intend”, and similar expressions, are expressions about our confidence, policies, and strategies, the adequacy of capital levels, and liquidity and are not guarantees of future performance. Such forward-looking statements involve certain risks and uncertainties, including economic conditions, competition in the geographic and business areas in which we operate, inflation, fluctuations in interest rates, legislation, and governmental regulation. These risks and uncertainties are described in detail in the section of the periodic reports that Shore Bancshares, Inc. files with the Securities and Exchange Commission (the “SEC”) entitled “Risk Factors” (see Item 1A of Part II of this report and Item 1A of Part I of the Annual Report of Shore Bancshares, Inc. on Form 10-K for the year ended December 31, 2018 (the “2018 Annual Report”). Actual results may differ materially from such forward-looking statements, and we assume no obligation to update forward-looking statements at any time except as required by law.

Introduction

The following discussion and analysis is intended as a review of significant factors affecting the Company’s financial condition and results of operations for the periods indicated. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes presented elsewhere in this report, as well as the audited consolidated financial statements and related notes included in the 2018 Annual Report.

Shore Bancshares, Inc. is the largest independent financial holding company headquartered on the Eastern Shore of Maryland. It is the parent company of Shore United Bank. The Bank operates 21 full service branches in Baltimore County, Howard County, Kent County, Queen Anne’s County, Talbot County, Caroline County and Dorchester County in Maryland, Kent County, Delaware and Accomack County, Virginia. The Company engages in the trust services business through the trust department at Shore United Bank under the trade name Wye Financial & Trust.

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

Shore Bancshares, Inc. maintains an Internet site at www.shorebancshares.com on which it makes available free of charge its Annual Report 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.

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. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility.

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The fair values and the information used to record valuation adjustments for certain assets and liabilities are based on quoted market prices, collateral value or are provided by other third-party sources, when available.

The most significant accounting policies that the Company follows are presented in Note 1 of the 2018 Annual Report. 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, goodwill and other intangible assets, deferred tax assets, and fair value 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.

The allowance for credit losses represents management's estimate of 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 homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, 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 of the 2018 Annual Report describes the methodology used to determine the allowance for credit losses. A discussion of the factors driving changes in the amount of the allowance for credit losses is included in the Asset Quality - Provision for Credit Losses and Risk Management section below.

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 required to be recorded at fair value at inception. Determining fair value is subjective, requiring the use of estimates, assumptions and management judgment. Goodwill and other intangible assets with indefinite lives are tested at least annually for impairment, usually during the first 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. Impairment testing requires that the fair value of each of the Company's reporting units be compared to the carrying amount of its net assets, including goodwill. At the present time the Company only has one reporting unit, the Bank. If the fair value of the Bank is less than book value, an expense may be required to write down the related goodwill or purchased intangibles to record an impairment loss.

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. 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 measures certain financial assets and liabilities at fair value, with the measurements made on a recurring or nonrecurring basis. Significant financial instruments measured at fair value on a recurring basis are investment securities. Impaired loans and other real estate owned are significant financial instruments measured at fair value on a nonrecurring basis. 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. In determining fair value, the Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs, reducing subjectivity.

OVERVIEW

The Company reported net income of \$4.2 million for the second quarter of 2019, or diluted income per common share of \$0.33, compared to net income of \$4.4 million, or diluted income per common share of \$0.34, for the second quarter of 2018. For the first quarter of 2019, the Company reported net income of \$3.8 million, or diluted income per common share of \$0.29. Net income from continuing operations for the second quarter of 2019 was \$4.2 million or \$0.33 per diluted common share, compared to net income from continuing operations of \$4.2 million or \$0.33 per diluted common share for the second quarter of 2018, and net income from continuing operations of \$3.9 million or \$0.30 per diluted common share for the first quarter of 2019. When comparing net income from continuing operations for the second quarter of 2019 to the second quarter of 2018, the primary reasons for slightly improved results were an increase in noninterest income and a reduction in provision for credit losses, almost entirely offset by increases in interest expense and noninterest expense. When comparing net income from continuing operations for the second quarter of 2019 to the first quarter of 2019, the improved results were primarily attributable to increases in interest income and noninterest income as well as a reduction in noninterest expense, partially offset by higher interest expense and higher provision for credit losses.

For the first six months of 2019, the Company reported net income of \$8.0 million, or diluted income per common share of \$0.62, compared to net income of \$8.4 million, or diluted income per common share of \$0.66, for the first six months of 2018. Net income from continuing operations for the first six months of 2019 was \$8.1 million, or 0.63 per diluted common share, compared to net income from continuing operations of \$7.7 million or \$0.60 per diluted common share for the first six months of 2018. When comparing net income from continuing operations for the first six months of 2019 to the first six months of 2018, the improved results were due to higher noninterest income coupled with a reduction to the provision for credit losses, partially offset by an increase in interest expense and noninterest expense.

RESULTS OF OPERATIONS

Net Interest Income

Tax-equivalent net interest income is net interest income adjusted for the tax-favored status of income from certain loans and investments. As shown in the table below, tax-equivalent net interest income was \$12.3 million for the second quarter of 2019 and \$12.6 million for the second quarter of 2018. Tax-equivalent net interest income was \$12.4 million for the first quarter of 2019. The decrease in net interest income for the second quarter of 2019 when compared to the second quarter of 2018 and first quarter of 2019 was primarily due to an increase in interest expense, primarily interest on deposits of \$1.6 million, or 280.0%, and \$257 thousand, or 13.2%, respectively. These increases in interest expense for the second quarter of 2019 were partially offset by higher interest income and fees on loans when compared to the second quarter of 2018 and the first quarter of 2019 of \$1.1 million, or 8.9%, and \$257 thousand, or 1.9%, respectively. Net interest margin is tax-equivalent net interest income (annualized) divided by average earning assets. The net interest margin for the second quarter of 2019 was 3.54%, which is a decrease of 25 basis points (bps) when compared to 3.79% for the second quarter of 2018 and a decrease of 7bps when compared to the first quarter of 2019 of 3.61%.

Interest Income

On a tax-equivalent basis, interest income increased \$1.1 million, or 7.9%, for the second quarter of 2019 when compared to the second quarter of 2018. The increase was due to a \$1.1 million, or 8.9%, increase in interest income and fees on loans, primarily the result of the increase in the average balance of loans of \$79.9 million, or 7.0%. The average yield on loans increased 8bps from the comparable quarter in 2018. Interest on interest-bearing deposits with other banks increased \$52 thousand, or 85.2% due to increased average yield on these deposits of 65bps. Interest on investment securities decreased \$95 thousand, or 9.7%, due to a decrease in the average balance of investment securities of \$26.6 million, or 14.3% which was used to fund loan growth between the comparable quarters.

On a tax-equivalent basis, interest income increased \$96 thousand, or 0.7%, for the second quarter of 2019 when compared to the first quarter of 2019. The increase was primarily due to an increase in interest income and fees on loans of \$257 thousand, primarily the result of an increase in the average balance on loans of \$19.3 million. Partially offsetting the increase in interest income and fees on loans, was reduced income on taxable investment securities and interest-bearing deposits with other banks of \$111 thousand and \$50 thousand, respectively. Both interest-bearing deposits with other

banks and taxable investment securities were impacted by lower average balances of \$9.5 million and \$5.1 million, with the addition of a decrease in the yield for taxable investment securities of 23bps.

Interest Expense

Interest expense increased \$1.4 million, or 135.9%, when comparing the second quarter of 2019 to the second quarter of 2018. The increase in interest expense was due to an increase in the rates paid on interest-bearing deposits of 72bps, which equated to \$1.6 million in additional interest expense. The addition of long-term borrowings resulted in additional interest expense of \$107 thousand, partially offset by a decrease in the average balance of short-term borrowings of \$70.4 million, or 76.6%. The average balance of interest-bearing deposits increased \$54.7 million, or 6.5% which was a positive transition from higher rates paid on short-term borrowings and a more sustainable approach for funding long-term loan growth. The average balance of noninterest-bearing deposits increased \$17.4 million, or 5.4% between the comparable quarters.

Interest expense increased \$190 thousand, or 8.4%, when comparing the second quarter of 2019 to the first quarter of 2019. The increase in interest expense was due to an increase in the average balance of interest-bearing deposits of \$9.7 million, or 1.1%, coupled with higher rates paid on these deposits of 10bps. This increase provided the opportunity for the Company to pay-down short-term borrowings resulting in a decrease in the average balance of \$11.4 million, or 34.6%. The average balance of noninterest-bearing deposits increased \$8.6 million, or 2.6% when compared to the first quarter of 2019.

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The following tables presents the distribution of the average consolidated balance sheets, interest income/expense, and annualized yields earned and rates paid for the three months ended June 30, 2019 and 2018.

(Dollars in thousands)	For Three Months Ended June 30, 2019			For Three Months Ended June 30, 2018		
	Average Balance	Income(1)/ Expense	Yield/ Rate	Average Balance	Income(1)/ Expense	Yield/ Rate
Earning assets						
Loans (2), (3)	\$ 1,221,215	\$ 13,790	4.53 %	\$ 1,141,296	\$ 12,659	4.45 %
Investment securities:						
Taxable	159,878	887	2.22	186,453	982	2.11
Interest-bearing deposits	18,325	113	2.47	13,301	61	1.82
Total earning assets	1,399,418	14,790	4.24 %	1,341,050	13,702	4.10 %
Cash and due from banks	17,225			16,905		
Other assets	61,906			78,185		
Allowance for credit losses	(10,456)			(10,193)		
Total assets	\$ 1,468,093			\$ 1,425,947		
Interest-bearing liabilities						
Demand deposits	\$ 234,775	382	0.65 %	\$ 204,068	108	0.21 %
Money market and savings deposits	385,272	803	0.84	381,047	127	0.13
Brokered Deposits	20,866	131	2.52	10,684	52	1.96
Certificates of deposit \$100,000 or more	107,549	413	1.54	96,873	129	0.54
Other time deposits	145,900	475	1.31	146,946	164	0.45
Interest-bearing deposits	894,362	2,204	0.99	839,618	580	0.27
Short-term borrowings	21,557	145	2.70	91,980	461	2.01
Long-term debt	15,000	107	2.86	—	—	—
Total interest-bearing liabilities	930,919	2,456	1.06 %	931,598	1,041	0.44 %
Noninterest-bearing deposits	339,589			322,172		
Other liabilities	8,484			5,697		
Stockholders' equity	189,101			166,480		
Total liabilities and stockholders' equity	\$ 1,468,093			\$ 1,425,947		
Net interest spread		\$ 12,334	3.18 %		\$ 12,661	3.66 %
Net interest margin			3.54 %			3.79 %
Tax-equivalent adjustment						
Loans		\$ 41			\$ 28	
Total		\$ 41			\$ 28	

- (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 amortized loan fees, net of costs, and accretion of discounts on acquired loans, which are included in the yield calculations.

Net Interest Income

Tax-equivalent net interest income decreased \$256 thousand, or 1.0%, during the six months ended June 30, 2019 compared to the six months ended June 30, 2018. The decrease in net interest income was primarily due to an increase in interest expense on interest-bearing deposits of \$3.0 million, or 268.0%, partially offset by an increase in interest income from earning assets of \$2.7 million, or 9.9%. This resulted in a net interest margin of 3.57% for the six months ended June 30, 2019 compared to 3.80% for the six months ended June 30, 2018.

Interest Income

On a tax-equivalent basis, interest income increased \$2.7 million, or 9.9%, for the six months ended June 30, 2019 when compared to the six months ended June 30, 2018. The increase was primarily due to a \$2.6 million, or 10.5%, increase in interest income and fees on loans. The average balance on loans increased \$87.8 million, or 7.8%, while the yield on these loans expanded 11bps. In addition, interest income from interest-bearing deposits with other banks increased \$177

thousand, or 178.8%, primarily due to a 70bps increase in yield on these deposits. This was partially offset by a decrease in interest income on investment securities of \$118 thousand, or 5.9%, primarily due to a decrease in the average balance in these investments of \$29.4 million, or 15.3%, which was used to fund loan growth between the comparable periods.

Interest Expense

Interest expense increased \$2.9 million, or 160.2%, when comparing the six months ended June 30, 2019 to the six months ended June 30, 2018. The increase in interest expense was due to the increase in the average balance of interest-bearing deposits of \$43.8 million, or 5.2%, and the average rate paid on these deposits of 67bps. This added \$3.0 million in additional interest expense when comparing the first six months of 2019 to the first six months of 2018. The addition of long-term borrowings of \$15.0 million was offset by a decrease in the average balance of short-term borrowings of \$47.1 million which decreased the dependence on outside funding sources which carry a higher rate than core deposits.

The following tables presents the distribution of the average consolidated balance sheets, interest income/expense, and annualized yields earned and rates paid for the six months ended June 30, 2019 and 2018.

(Dollars in thousands)	For Six Months Ended June 30, 2019			For Six Months Ended June 30, 2018		
	Average Balance	Income(1)/ Expense	Yield/ Rate	Average Balance	Income(1)/ Expense	Yield/ Rate
Earning assets						
Loans (2), (3)	\$ 1,211,618	\$ 27,323	4.55 %	\$ 1,123,852	\$ 24,731	4.44 %
Investment securities:						
Taxable	162,429	1,885	2.34	191,839	2,003	2.09
Interest-bearing deposits	23,039	276	2.42	11,536	99	1.72
Total earning assets	1,397,086	29,484	4.26 %	1,327,227	26,833	4.08 %
Cash and due from banks	17,211			16,646		
Other assets	60,340			77,266		
Allowance for credit losses	(10,423)			(10,081)		
Total assets	\$ 1,464,214			\$ 1,411,058		
Interest-bearing liabilities						
Demand deposits	\$ 237,271	741	0.63 %	\$ 210,403	233	0.22 %
Money market and savings deposits	384,508	1,610	0.84	380,969	244	0.13
Brokered Deposits	21,470	260	2.44	5,372	52	1.96
Certificates of deposit \$100,000 or more	103,067	714	1.40	99,387	255	0.52
Other time deposits	143,226	826	1.16	149,619	344	0.46
Interest-bearing deposits	889,542	4,151	0.94	845,750	1,128	0.27
Short-term borrowings	27,239	358	2.65	74,381	687	1.86
Long-term debt	15,000	213	2.86	—	—	—
Total interest-bearing liabilities	931,781	4,722	1.02 %	920,131	1,815	0.40 %
Noninterest-bearing deposits	335,334			319,434		
Other liabilities	10,051			5,715		
Stockholders' equity	187,048			165,778		
Total liabilities and stockholders' equity	\$ 1,464,214			\$ 1,411,058		
Net interest spread		\$ 24,762	3.24 %		\$ 25,018	3.68 %
Net interest margin			3.57 %			3.80 %
Tax-equivalent adjustment						
Loans		\$ 75			\$ 56	
Total		\$ 75			\$ 56	

- (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 amortized loan fees, net of costs, and accretion of discounts on acquired loans, which are included in the yield calculations.

Noninterest Income

Total noninterest income from continuing operations for the second quarter of 2019 increased \$313 thousand, or 13.6%, when compared to the second quarter of 2018. The increase from the second quarter of 2018 was mainly due to increases in other fees on bank services of \$259 thousand, service charges on deposit accounts of \$81 thousand, other loan fee income of \$26 thousand and a change in the fair value of equity securities of \$51 thousand, partially offset by a decrease in trust and investment fee income of \$29 thousand. Noninterest income from continuing operations increased \$421 thousand, or 19.2%, when compared to the first quarter of 2019 mainly due to other fees and bank services of \$288 thousand, service charges on deposit accounts of \$94 thousand, other loan fee income of \$29 thousand and trust and investment fee income of \$13 thousand. The increase in fee income in the second quarter of 2019 when compared to the second quarter of 2018 and the first quarter of 2019 was primarily due to certain one-time fees received in the second quarter of 2019 as a one-time occurrence.

Total noninterest income from continuing operations for the six months ended June 30, 2019 increased \$361 thousand, or 8.1%, when compared to the same period in 2018. The increase in noninterest income primarily consists of increases in other fees on bank services of \$311 thousand, service charges on deposit accounts of \$110 thousand, other loan fee income of \$40 thousand, and a change in the fair value of equity securities of \$54 thousand, partially offset by a decrease in trust and investment income of \$57 thousand.

Noninterest Expense

Total noninterest expense from continuing operations for the second quarter of 2019 increased \$132 thousand, or 1.5%, when compared to the second quarter of 2018. The increase in noninterest expense for the second quarter of 2019 compared to the second quarter of 2018 was primarily due to higher expense related to data processing of \$230 thousand, other real estate owned expense, net of \$55 thousand, furniture and equipment expense of \$48 thousand and legal and professional fees of \$72 thousand, partially offset by a decrease in salaries and wages of \$309 thousand. The higher data processing fees were the result of a new contract with our core service provider which occurred in the third quarter of 2018. The decrease in salaries and wages was due to the termination of the 2020 Long-term Incentive Plan and the absence of the former president of the Bank's salary for an entire quarter. The decrease in total noninterest expenses from continuing operations when compared to the first quarter of 2019 was primarily due to lower employee benefit costs of \$186 thousand and lower other real estate owned expense, net of \$173 thousand.

Total noninterest expense from continuing operations for the six months ended June 30, 2019 increased \$23 thousand, or 0.01%, when compared to the same period in 2018. Despite the minimal increase in total noninterest expenses from continuing operations, several expense line items experienced significant variances. The significant increases in noninterest expenses were the following: Other real estate owned expenses, net of \$334 thousand, data processing fees of \$272 thousand, legal and professional fees of \$225 thousand, and employee benefits of \$101 thousand. The significant decreases in noninterest expense were the following: Salaries and wages of \$769 thousand, other noninterest expenses of \$121 thousand and \$64 thousand in directors' fees.

Provision for Credit Losses

The provision for credit losses was \$200 thousand for the second quarter of 2019, \$418 thousand for the second quarter of 2018 and \$100 thousand for the first quarter of 2019. The lower level of provision for credit losses when comparing the second quarter of 2019 to the second quarter of 2018 was due to lower loan growth in the second quarter of 2019. The higher level of provision for credit losses when comparing the second quarter of 2019 to the first quarter of 2019 was due to the absence of recoveries experienced in the first quarter of 2019 of \$185 thousand. Net charge-offs were \$313 thousand for the second quarter of 2019, \$84 thousand for the second quarter of 2018 and \$25 thousand for the first quarter of 2019. The increase in net charge-offs in the second quarter of 2019 when compared to the second quarter of 2018 and the first quarter of 2019, was primarily due to the sale of real estate securing specific loans at a foreclosure auction, which resulted in additional charge-offs during the second quarter of 2019. Total nonperforming assets at June 30, 2019 increased \$5.4 million when compared to June 30, 2018, which was due to a nonaccrual loan added late in the fourth quarter of 2018, in which the Company does not anticipate any further losses. Total nonperforming assets when compared to the first quarter of 2019 decreased \$891 thousand, the result of decreases in nonaccrual loans of \$768 thousand and other real estate owned

of \$455 thousand, partially offset by an increase in loans 90 days past due and still accruing of \$392 thousand. The ratio of annualized net charge-offs to average loans was 0.10% for the second quarter of 2019, 0.03% for the second quarter of 2018 and 0.01% for the first quarter of 2019.

The provision for credit losses for the six months ended June 30, 2019 and 2018 was \$300 thousand and \$907 thousand, respectively, while net charge-offs were \$338 thousand and \$567 thousand, respectively. The decrease in provision for credit losses was the result of improved overall credit quality exclusive of one large nonaccrual loan with an outstanding loan balance of \$7.5 million added late in the fourth quarter of 2018. Additionally, the decrease in provision for credit losses for the first six months of 2019 when compared to the first six months of 2018 was impacted by lower loan growth and lower net charge-offs in 2019. The ratio of annualized net charge-offs to average loans was 0.06% for the first six months of June 30, 2019 and 0.10% for the same period in 2018.

Income Taxes

The Company reported income tax expense from continuing operations of \$1.5 million for the second quarter of 2019 and 2018 and \$1.3 million for the first quarter of 2019. Income tax expense remained flat when compared to the second quarter of 2018 due to a minimal change in pre-tax earnings. Income tax expense increased \$178 thousand when compared to the first quarter of 2019 due to improved pre-tax earnings for the Company. The effective tax rate on continuing operations was 26.0% for the second quarter of 2019, 25.9% for the second quarter of 2018 and 25.5% for the first quarter of 2019. Income taxes from continuing operations for the six months ended June 30, 2019 increased \$268 thousand or 10.6%, due to an increase in net income.

ANALYSIS OF FINANCIAL CONDITION

Loans

Loans totaled \$1.240 billion at June 30, 2019 and \$1.195 billion at December 31, 2018, an increase of \$44.9 million, or 3.8%. The increase was primarily due to organic growth of \$36.1 million in commercial real estate loans, \$6.6 million in construction loans and \$1.1 million in commercial loans. Loans included deferred costs, net of deferred fees, of \$1.2 million and discounts on acquired loans of \$1.3 million at June 30, 2019, compared to \$789 thousand and \$1.4 million, respectively, at December 31, 2018. We do not engage in foreign or subprime lending activities. See Note 5, “Loans and Allowance for Credit Losses”, in the Notes to Consolidated Financial Statements and below under the caption “Allowance for Credit Losses” for additional information.

Our loan portfolio has a commercial real estate loan concentration, which is generally defined as a combination of certain construction and commercial real estate loans. Construction loans were \$134.1 million, or 10.8% of total loans, at June 30, 2019 and \$127.6 million, or 10.7% of total loans at December 31, 2018. Commercial real estate loans were \$559.6 million, or 45.1% of total loans, at June 30, 2019, compared to \$523.4 million, or 43.8% of total loans, at December 31, 2018.

The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent 100% or more of an institution’s total risk-based capital; or (2) total non-owner occupied commercial real estate loans representing 300% or more of the institution’s total risk-based capital and the institution’s non-owner occupied commercial real estate loan portfolio (including construction) has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans, and the Company has experienced significant growth in its commercial real estate portfolio in recent years. At June 30, 2019, non-owner-occupied commercial real estate loans (including construction, land and land development loans) represented 299.9% of total risk-based capital. At such time, construction, land and land development loans represented 84.2% of total risk-based capital.

The commercial real estate portfolio (including construction) has increased 99.4% during the prior 36 months. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened risk management procedures, as well as strong underwriting criteria with respect to its commercial real estate portfolio. Monitoring practices include periodic stress testing analysis to evaluate changes to cash flows, owing to interest rate increases and declines in net operating income. We may be required to maintain higher levels of capital as a result of our commercial real estate concentrations, which could require us to obtain additional capital or be required to sell/participate portions of loans, which may adversely affect shareholder returns.

Allowance for Credit Losses

We have established an allowance for credit losses, which is increased by provisions charged against earnings and recoveries of previously charged-off loans and is decreased by current period charge-offs of uncollectible loans. Management evaluates the adequacy of the allowance for credit losses at least quarterly and adjusts the provision for credit losses based on this analysis. The evaluation of the adequacy of the allowance for credit losses is based primarily on a risk rating system of individual loans, as well as on a collective evaluation of smaller balance homogenous loans, each grouped by loan type. Each loan type is assigned allowance factors based on criteria such as past credit loss experience, local economic and industry trends, and other measures which may impact collectability. Please refer to the discussion above under the caption “Critical Accounting Policies” for an overview of the underlying methodology management employs to maintain the allowance.

Net charge-offs were \$313 thousand for the second quarter of 2019, \$84 thousand for the second quarter of 2018 and \$25 thousand for the first quarter of 2019. Management remains focused on its efforts to dispose of problem loans and to prudently charge-off nonperforming loans to enable the Company to continue to improve its overall credit quality. The allowance for credit losses as a percentage of period-end loans was 0.83% at June 30, 2019, and 0.87% at June 30, 2018 and December 31, 2018. Management believes that the provision for credit losses and the resulting allowance was adequate to provide for probable losses inherent in our loan portfolio at June 30, 2019.

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The following table presents a summary of the activity in the allowance for credit losses at or for the three and six months ended June 30, 2019 and 2018.

(Dollars in thousands)	At or for Three Months Ended June 30,		At or for Six Months Ended June 30,	
	2019	2018	2019	2018
Allowance balance - beginning of period	\$ 10,418	\$ 9,787	\$ 10,343	\$ 9,781
Charge-offs:				
Construction	(3)	—	(3)	(379)
Residential real estate	(300)	(41)	(423)	(179)
Commercial real estate	—	—	—	—
Commercial	(81)	(126)	(162)	(126)
Consumer	(23)	(14)	(29)	(24)
Total	(407)	(181)	(617)	(708)
Recoveries:				
Construction	4	6	7	15
Residential real estate	3	73	11	86
Commercial real estate	8	8	107	18
Commercial	77	10	152	22
Consumer	2	—	2	—
Totals	94	97	279	141
Net charge-offs	(313)	(84)	(338)	(567)
Provision for credit losses	200	418	300	907
Allowance balance - end of period	\$ 10,305	\$ 10,121	\$ 10,305	\$ 10,121
Average loans outstanding during the period	\$ 1,221,215	\$ 1,141,296	\$ 1,211,618	\$ 1,123,852
Net charge-offs (annualized) as a percentage of average loans outstanding during the period	0.10 %	0.03 %	0.06 %	0.10 %
Allowance for credit losses at period end as a percentage of total period end loans	0.83 %	0.87 %	0.83 %	0.87 %

Nonperforming Assets and Accruing TDRs

As shown in the following table, nonperforming assets decreased \$2.5 million to \$15.6 million at June 30, 2019 from \$18.0 million at December 31, 2018, primarily due to a decrease in nonaccrual loans of \$2.1 million, or 12.4%. Accruing TDRs decreased \$895 thousand to \$7.8 million at June 30, 2019 from \$8.7 million at December 31, 2018. Additionally, other real estate owned decreased \$698 thousand, or 57.1% when compared to December 31, 2018. The decrease in nonaccrual loans was due to two residential relationships in which the collateral was sold by the borrower and the loans were subsequently paid off. One of these relationships required a charge-off of \$123 thousand. The decrease in accruing TDRs was due to normal payments and one payoff of \$197 thousand. The ratio of nonaccrual loans and accruing TDRs to total loans decreased to 1.80% at June 30, 2019 from 2.12% at December 31, 2018.

The Company continues to focus on the resolution of its nonperforming and problem assets. 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. The reduction of nonperforming and problem assets is and will continue to be a high priority for the Company.

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The following table summarizes our nonperforming assets and accruing TDRs at June 30, 2019 and December 31, 2018.

(Dollars in thousands)	June 30, 2019	December 31, 2018
Nonperforming assets		
Nonaccrual loans		
Construction	\$ 1,449	\$ 2,842
Residential real estate	2,549	4,099
Commercial real estate	10,283	9,374
Commercial	311	340
Consumer	—	—
Total nonaccrual loans	14,592	16,655
Loans 90 days or more past due and still accruing		
Construction	—	—
Residential real estate	152	139
Commercial real estate	278	—
Commercial	9	—
Consumer	—	—
Total loans 90 days or more past due and still accruing	439	139
Other real estate owned	524	1,222
Total nonperforming assets	\$ 15,555	\$ 18,016
Accruing TDRs		
Construction	\$ 45	\$ 51
Residential real estate	4,212	4,454
Commercial real estate	3,511	4,158
Commercial	—	—
Consumer	—	—
Total accruing TDRs	\$ 7,768	\$ 8,663
Total nonperforming assets and accruing TDRs	\$ 23,323	\$ 26,679
As a percent of total loans:		
Nonaccrual loans	1.18 %	1.39 %
Accruing TDRs	0.63 %	0.72 %
Nonaccrual loans and accruing TDRs	1.80 %	2.12 %
As a percent of total loans and other real estate owned:		
Nonperforming assets	1.25 %	1.51 %
Nonperforming assets and accruing TDRs	1.88 %	2.23 %
As a percent of total assets:		
Nonaccrual loans	0.98 %	1.12 %
Nonperforming assets	1.04 %	1.21 %
Accruing TDRs	0.52 %	0.58 %
Nonperforming assets and accruing TDRs	1.56 %	1.80 %

Investment Securities

The investment portfolio is comprised of debt securities that are classified either available for sale or held to maturity. Investment securities available for sale are stated at estimated fair value based on quoted prices. They represent securities which may be sold as part of the asset/liability management strategy or in response to changing interest rates. Net unrealized holding gains and losses on these securities are reported net of related income taxes as accumulated other comprehensive income (loss), a separate component of stockholders' equity.

Investment securities in the held to maturity category are stated at cost adjusted for amortization of premiums and accretion of discounts. We have the intent and current ability to hold such securities until maturity. At June 30, 2019, 96.1% of the portfolio was classified as available for sale and 3.9% as held to maturity, compared to 96.3% and 3.7% at December 31, 2018. With the exception of municipal securities, our general practice is to classify all newly-purchased debt securities as available for sale. See Note 4 - Investment Securities, in the Notes to Consolidated Financial Statements for additional details on the composition of our investment portfolio.

Investment securities including restricted stock totaled \$157.7 million at June 30, 2019, a \$10.5 million, or 6.2%, decrease since December 31, 2018. The decrease was due to the roll-off of investment securities, the proceeds of which were redeployed to fund loan growth during the first six months of 2019. At June 30, 2019, 76.6% of the securities available for sale were mortgage-backed and 23.4% were U.S. Government agencies, compared to 78.2% and 21.8%, respectively, at year-end 2018. Our investments in mortgage-backed securities are issued or guaranteed by U.S. Government agencies or government-sponsored agencies.

Deposits

Total deposits at June 30, 2019 totaled \$1.2 billion, an increase of \$36.7 million, or 3.0% when compared to the level at December 31, 2018. The increase in total deposits primarily consisted of increases in time deposits greater than \$100 thousand of \$20.0 million, noninterest-bearing deposits of \$16.5 million, other time deposits of \$8.9 million and savings and money market accounts of \$1.1 million, partially offset by decreases in interest bearing checking deposits of \$7.7 million and brokered deposits of \$2.1 million. The Company has continued its efforts in 2019 to focus on growing core deposits as an alternative to short-term borrowings for funding loan growth.

Short-Term Borrowings

Short-term borrowings decreased by \$35.3 million, or 58.1%, to \$25.5 million at June 30, 2019 when compared to December 31, 2018. The decrease in short-term borrowings was the result of utilizing cash received from the sale of the Company's former insurance subsidiary on December 31, 2018 as well as growth in core deposits. Short-term borrowings generally consist of securities sold under agreements to repurchase, which are issued in conjunction with cash management services for commercial depositors, overnight borrowings from correspondent banks and short-term advances from the Federal Home Loan Bank (the "FHLB"). Short-term advances are defined as those with original maturities of one year or less. At June 30, 2019 and December 31, 2018, short-term borrowings consisted of borrowings from the FHLB and repurchase agreements.

Long-Term Debt

The Company uses long-term borrowings to meet longer term liquidity needs, specifically to fund loan growth when liquidity from deposit growth is not sufficient. The Company had \$15.0 million outstanding at June 30, 2019 and December 31, 2018. The \$15.0 million in fixed rate long-term borrowings from the FHLB carries an interest rate of 2.82% and will mature in April 2020.

Liquidity and Capital Resources

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 decrease in cash and cash equivalents was \$27.9 million for the first six months of 2019 compared to an increase of \$11.7 million for the first six months of 2018. The increase in cash and cash equivalents in 2018 was mainly due to short-term borrowings.

To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term fund markets. The Bank has arrangements with other corresponding banks whereby it has \$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. Through the FHLB, the Bank had credit availability of approximately \$212.9 million and \$154.7 million at June 30, 2019 and December 31, 2018, respectively. The Bank has

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pledged, under a blanket lien, all qualifying residential and commercial real estate loans under borrowing agreements with the FHLB. Management is not aware of any demands, commitments, events or uncertainties that are likely to materially affect our future ability to maintain liquidity at satisfactory levels.

Total stockholders' equity increased \$8.1 million to \$191.3 million at June 30, 2019 when compared to December 31, 2018 primarily due to current year's earnings.

Basel III

Under final FRB and FDIC approved rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks minimum requirements increased for both the quantity and quality of capital held by the Company. The Basel III capital standards substantially revised the risk based capital requirements applicable to bank holding companies and their depository institution subsidiaries, including the definitions and the components of Tier 1 capital and Total Capital, the method of evaluating risk-weighted assets, institutions of a capital conservation buffer, and other matters affecting regulatory capital ratios. Strict eligibility criteria for regulatory capital instruments were also implemented under the rules.

The phase-in period for the final rules became effective for the Company on January 1, 2015, with full compliance with all of the final rules' requirements phased in over a multi-year schedule, which was fully phased in on January 1, 2019. As of June 30, 2019, the Bank's capital levels remained characterized as "well-capitalized" under the new rules

The following tables present the applicable capital ratios as of June 30, 2019 and December 31, 2018.

	Tier 1 leverage ratio	Common Equity Tier 1 ratio	Tier 1 risk-based capital ratio	Total risk-based capital ratio
June 30, 2019				
Shore United Bank	10.29 %	12.11 %	12.11 %	12.98 %
December 31, 2018				
Shore United Bank	9.79 %	11.84 %	11.84 %	12.73 %

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Our primary market risk is interest rate fluctuation and management has procedures in place to evaluate and mitigate this risk. This risk and these procedures are discussed in Item 7 of Part II of the 2018 Annual Report under the caption "Market Risk Management and Interest Sensitivity". Management believes that there have been no material changes in our market risks, the procedures used to evaluate and mitigate these risks, or our actual and simulated sensitivity positions since December 31, 2018.

Item 4. Controls and Procedures.

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

that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls and procedures as of June 30, 2019 was carried out under the supervision and with the participation of management, including the PEO and the PAO. Based on that evaluation, the Company's management, including the PEO and the PAO, has concluded that our disclosure controls and procedures are, in fact, effective at the reasonable assurance level at June 30, 2019.

There was no change in our internal control over financial reporting during the second quarter of 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

The risks and uncertainties to which our financial condition and operations are subject are discussed in detail in Item 1A of Part I of the 2018 Annual Report. Management does not believe that any material changes in our risk factors have occurred since they were last disclosed in our 2018 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits.

The exhibits filed or furnished with this quarterly report are shown on the Exhibit List that follows the signatures to this report, which list is incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Description
10.1	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).
10.2	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).
10.3	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).
31.1	Certifications of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith).
31.2	Certifications of the Principal Accounting Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith).
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith).
101	Interactive Data File
101.INS	XBRL Instance Document (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (filed herewith)

SIGNATURES

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

SHORE BANCSHARES, INC.

Date: August 9, 2019

By: /s/ Lloyd L. Beatty, Jr.
Lloyd L. Beatty, Jr.
President & Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2019

By: /s/ Edward C. Allen
Edward C. Allen
Executive Vice President & Chief Financial
Officer
(Principal Accounting Officer)

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

This **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN** (this “Agreement”) is made and entered into this 19th day of July, 2019 (the “Effective Date”), by and among **SHORE UNITED BANK**, a Maryland bank (the “Bank”), and Lloyd L. Beatty, Jr. (the “Executive”). Capitalized terms used herein are defined in Section 10 of this Agreement.

BACKGROUND

To incentivize the Executive to devote his full business time, attention, and energies to the business of the Bank, the Bank and the Executive desire to enter into this Agreement to establish the terms and conditions of the nonqualified supplemental executive retirement plan to be maintained by the Bank on the Executive’s behalf.

AGREEMENT

In consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound hereby, the parties hereby agree as follows:

1. General Terms and Conditions. The Bank hereby establishes a nonqualified supplemental executive retirement plan for the benefit of the Executive. Section 2 below describes the benefits available to the Executive, or the Executive’s Beneficiary, upon the occurrence of certain events as described in, and subject to the terms and conditions of, this Agreement; provided the Executive remains in the Continuous Service of the Bank from the Effective Date until the specified event. Each benefit described in Section 2 is in lieu of any other benefit therein. No benefits under this Agreement shall be payable with respect to any event other than the events described below, and the benefits otherwise payable pursuant to Section 2 below are subject to the further limitations in Section 2(f) and (g).

2. Retirement Benefits.

(a) Termination on or after Normal Retirement Age. If Executive remains in the Continuous Service of the Bank until on or after attaining Normal Retirement Age, then following the date on which the Executive experiences a Separation from Service on or after Normal Retirement Age (the “Normal Retirement Date”) for any reason other than (i) discharge of the Executive by the Bank for Cause, (ii) because the Executive dies or becomes Permanently Disabled or (iii) on or within twelve (12) months following the effective date of a Change in Control, the Bank shall pay to the Executive the Normal Retirement Benefit each year for ten (10) years. Payment of the Normal Retirement Benefit shall commence upon the Executive’s Normal Retirement Date, beginning with the month immediately following the Executive’s Normal Retirement Date, and be paid in twelve (12) equal monthly installments (without interest) on the first day of each month thereafter until paid in full.

(b) Termination Prior to Normal Retirement Age. If the Executive experiences a Separation from Service prior to attaining Normal Retirement Age for any reason other than (i) discharge of the Executive by the Bank for Cause, (ii) because the Executive dies or becomes Permanently Disabled or (iii) on or within twelve (12) months following the effective date of a Change in Control, then the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days after the Executive’s Separation from Service an amount equal to the Accrual

Balance as of the date of Executive's Separation from Service.

(c) Termination in Connection with a Change in Control. If before, on or after Normal Retirement Age, the Executive experiences a Separation from Service on or within the twelve (12) months following the effective date of a Change in Control for any reason other than (i) discharge of the Executive by the Bank for Cause or (ii) because the Executive dies or becomes Permanently Disabled, then the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days after the Executive's Separation from Service an amount equal to the present value of the Participant's Normal Retirement Benefit discounted using the current discount rate being utilized to calculate GAAP liabilities and assuming payments commence immediately.

(d) Disability. If Executive becomes Permanently Disabled while in the Continuous Service of the Bank and before any event described in Subsections (a), (b) or (c) above, the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days following the date on which the Executive becomes Permanently Disabled an amount equal to the Accrual Balance as of the date Executive becomes Permanently Disabled.

(e) Death. If the Executive dies while in the Continuous Service of the Bank and before the occurrence of any event triggering the Executive's entitlement to a benefit under this Section 2, then no benefits shall be paid under this Agreement. If Executive dies after the occurrence of any event triggering the Executive's entitlement to a benefit under this Section 2 and prior to payment of the entire Accrual Balance, the Executive's Beneficiary shall receive in a single lump sum on or within thirty (30) days after the Executive's death an amount equal to the remaining Accrual Balance at the time of Executive's death.

(f) Forfeiture of Benefits: Regulatory Limitations. Notwithstanding any other provision of this Agreement, if (i) the Bank discharges the Executive for Cause, or grounds exist for the Bank to discharge the Executive for Cause, regardless of whether an event triggering an entitlement to a benefit under Subsection (a) through (e) has occurred, no benefits shall be paid under this Agreement and any previously paid amounts shall be repaid to Bank by Executive upon five (5) days' notice. The obligations of the Bank under this Agreement are further subject to its adherence to applicable state and federal banking regulations, rules, or statutes.

(g) Temporary Suspension Applicable to a Specified Employee. Notwithstanding the foregoing provisions of this Section 2, if Executive is a "specified employee," within the meaning of Code Section 409A, as of the date of Executive's Separation from Service with the Bank other than by reason of death, payment of benefit amounts otherwise due shall be delayed to the extent necessary under Code Section 409A until the earlier of six (6) months after Separation from Service or the date of Executive's death, as applicable. Any payments that are so delayed shall be paid in a single lump sum in cash in the seventh month following Executive's Separation from Service, or within thirty (30) days after the Executive's death, if earlier.

3. Amendment; Termination. This Agreement may be amended or terminated only by a written agreement signed by the Bank and the Executive. The Bank may unilaterally amend the Agreement to conform with written directives to the Bank to comply with legislative changes or tax law, including, without limitation, Code Section 409A and any and all Treasury regulations and guidance promulgated thereunder. No amendment shall provide for or otherwise permit any acceleration of the time or schedule of any payment under the Agreement in a manner that would be prohibited under Code Section 409A. No waiver of any provision contained in this Agreement shall be effective unless it is in writing and signed by the party against whom such waiver is asserted. Notwithstanding the preceding provisions of this Section 3, the Bank may elect to terminate the Agreement under any circumstances permitted by Treasury

Regulations Section 1.409A-3(j)(4)(ix). In any such event, the Bank shall distribute to the Executive the Accrual Balance in a single lump sum at the earliest date permitted under such Treasury Regulations. The amount of the benefit (but not the timing of payment) shall be determined as if the effective date of the termination of the Agreement constituted an involuntary discharge by the Bank other than for Cause on or within twelve (12) months following a Change in Control.

4. ERISA Provisions.

(a) Plan Administrator Duties. This Agreement shall be administered by the Board of Directors of the Bank (the “Board of Directors”), or such committee or person(s) as the Board of Directors shall appoint, except that the Executive may not participate in any such actions and will excuse himself from participating in any such matter involving himself and/or this Agreement. The Board of Directors, (or its delegate(s)) in its capacity as the “administrator” of the Agreement for purposes of ERISA, shall have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Agreement; and (ii) decide or resolve any and all questions including interpretations of this Agreement, as may arise in connection with the Agreement. The decision or action of the Board of Directors (or its delegatee) with respect to any question arising out of or in connection with the administration, interpretation and application of the Agreement and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Agreement. The “Named Fiduciary” under the Agreement is the Bank.

(b) Claims Procedures.

(i) Notice of Denial.

(1) If Executive or a Beneficiary (a “claimant”) is denied a claim for benefits under this Agreement, the Claims Administrator shall provide to the claimant written notice of the adverse benefit determination (whether such claim is denied in whole or in part) within a reasonable period of time but no later than ninety (90) days after the Claims Administrator receives the claim. However, under special circumstances (to be determined by the Claims Administrator), the Claims Administrator may extend the time for processing the claim to a day no later than one hundred eighty (180) days after the Claims Administrator receives the claim. The claimant shall be notified in writing within the initial 90-day period of the need to extend the time for review, the special circumstances requiring an extension, and the date by which a decision is expected.

(2) With respect to a claim for benefits due to Executive being Permanently Disabled, the Claims Administrator shall provide to the claimant written notice of the adverse benefit determination within a reasonable period of time but no later than forty-five (45) days after the Claims Administrator receives the claim. This 45-day period may be extended up to thirty (30) days if an extension is necessary due to matters beyond the control of the Agreement (to be determined by the Claims Administrator) and the claimant is notified, prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which the Claims Administrator expects to render a decision. If, prior to the end of the first 30-day extension period, the Claims Administrator determines that, due to matters beyond the control of the Agreement (to be determined by the Claims Administrator), a decision cannot be rendered within that extension period, the period for making the determination may be

extended for up to an additional thirty (30) days, provided that the Claims Administrator notifies the claimant, prior to the expiration of the initial 30-day extension period, of the circumstances requiring the extension and the date as of which the Claims Administrator expects to render a decision. In the case of any such extension, the notice of extension shall also specifically explain the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall have at least forty-five (45) days within which to provide the specified information, if any.

(ii) Contents of Notice of Denial. If a claimant is denied a claim for benefits under this Agreement, the Claims Administrator shall provide to such claimant written notice of the denial. Any such notice of an adverse benefit determination shall be written in a manner calculated to be understood by the claimant (and with respect to a claim for benefits due to Executive being Permanently Disabled, be provided in a culturally and linguistically appropriate manner) and shall set forth:

- (1) the specific reason or reasons for the denial;
- (2) specific references to the pertinent provisions of this Agreement on which the denial is based;
- (3) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary;
- (4) an explanation of this Agreement's claim review procedures, and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review;
- (5) in the case of a claim for benefits due to Executive being Permanently Disabled:
 - (A) a discussion of the decision, including an explanation of the basis for disagreeing with or not following: the views presented by the claimant to the Agreement of health care professionals treating the claimant and vocational professionals who evaluated the claimant, the views of medical or vocational experts whose advice was obtained on behalf of the Agreement in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the benefit determination, and a disability determination regarding the claimant presented by the claimant to the Agreement made by the Social Security Administration;
 - (B) if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Agreement to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request in writing;

(C) the specific internal rules, guidelines, protocols, standards or other similar criteria of the Agreement relied upon in making the adverse determination, or, alternatively, a statement that such rules, guidelines, protocols, standards or other similar criteria of the Agreement do not exist; and

(D) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

(iii) Right to Review. After receiving written notice of the denial of a claim, a claimant or his representative shall be entitled to:

(1) submit written comments, documents, records, and other information relating to the denied claim to the Claims Administrator or Appeals Fiduciary, as applicable; and

(2) request, free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim

(3) request a full and fair review of the denial of the claim by written application to the Claims Administrator (or Appeals Fiduciary in the case of a claim for benefits payable due to Executive being Permanently Disabled), which shall include:

(A) a review that takes into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination; and

(B) in the case of a claim for benefits due to Executive being Permanently Disabled:

i. before issuing an adverse benefit determination on review, providing the claimant, free of charge with any new or additional evidence considered, relied upon, or generated by the Agreement or other person making the benefit determination (or at the direction of the Agreement or such other person) in connection with the claim as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the claimant a reasonable opportunity to respond prior to that date; and

ii. before issuing an adverse benefit determination on review based on a new or additional rationale, providing the claimant, free of charge, with the rationale as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the claimant a reasonable opportunity to respond prior to that date.

(iv) Application for Review.

(1) If a claimant wishes a review of the decision denying his claim to benefits under this Agreement, other than a claim described in paragraph (2) of this

Section 4(b)(iv), he must submit the written application to the Claims Administrator within sixty (60) days after receiving written notice of the denial.

(2) If the claimant wishes a review of the decision denying his claim to benefits under this Agreement due to Executive being Permanently Disabled, he must submit the written application to the Appeals Fiduciary within one hundred eighty (180) days after receiving written notice of the denial.

(v) Hearing. Upon receiving such written application for review, the Claims Administrator or Appeals Fiduciary, as applicable, may schedule a hearing for purposes of reviewing the claimant's claim, which hearing shall take place not more than thirty (30) days from the date on which the Claims Administrator or Appeals Fiduciary received such written application for review.

(vi) Notice of Hearing. At least ten (10) days prior to the scheduled hearing, the claimant and his representative designated in writing by him, if any, shall receive written notice of the date, time, and place of such scheduled hearing. The claimant or his representative, if any, may request that the hearing be rescheduled, for his convenience, on another reasonable date or at another reasonable time or place.

(vii) Counsel. All claimants requesting a review of the decision denying their claim for benefits may employ counsel for purposes of the hearing.

(viii) Decision on Review. No later than sixty (60) days (forty-five (45) days with respect to a claim for benefits due to Executive being Permanently Disabled) following the receipt of the written application for review, the Claims Administrator or the Appeals Fiduciary, as applicable, shall submit its decision on the review in writing to the claimant involved and to his representative, if any, unless the Claims Administrator or Appeals Fiduciary determines that special circumstances (such as the need to hold a hearing) require an extension of time, to a day no later than one hundred twenty (120) days (ninety (90) days with respect to a claim for benefits due to Executive being Permanently Disabled) after the date of receipt of the written application for review. If the Claims Administrator or Appeals Fiduciary determines that the extension of time is required, the Claims Administrator or Appeals Fiduciary shall furnish to the claimant written notice of the extension before the expiration of the initial sixty (60) day (forty-five (45) days with respect to a claim for benefits due to Executive being Permanently Disabled) period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Claims Administrator or Appeals Fiduciary expects to render its decision on review. In the case of a decision adverse to the claimant, the Claims Administrator or Appeals Fiduciary shall provide to the claimant written notice of the denial. Any such notice of an adverse benefit determination shall be written in a manner calculated to be understood by the claimant (and with respect to a claim for benefits due to Executive being Permanently Disabled, be provided in a culturally and linguistically appropriate manner) and shall include:

- (1) the specific reason or reasons for the adverse benefit determination;
- (2) specific references to the pertinent provisions of this Agreement on which the adverse benefit determination is based;

(3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;

(4) a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following the adverse benefit determination on review;

(5) a statement regarding the availability of other voluntary alternative dispute resolution options;

(6) in the case of a claim for benefits due to Executive being Permanently Disabled:

(A) a description of any contractual limitations period that applies to the claimant's right to bring a civil action under Section 502(a) of ERISA, including the calendar date on which the contractual limitations period expires for the claim;

(B) a discussion of the decision, including an explanation of the basis for disagreeing with or not following: the views presented by the claimant to the Agreement of health care professionals treating the claimant and vocational professionals who evaluated the claimant, the views of medical or vocational professionals whose advice was obtained on behalf of the Agreement in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the determination, and a disability determination regarding the claimant presented by the claimant to the Agreement made by the Social Security Administration;

(C) if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Agreement to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request; and

(D) the specific internal rules, guidelines, protocols, standards or other similar criteria of the Agreement relied upon in making the adverse determination, or a statement that such rules, guidelines, protocols, standards or other similar criteria do not exist.

The Claims Administrator has the discretionary authority to determine all interpretative issues arising under this Agreement and the interpretations of the Claims Administrator shall be final and binding upon Executive or any other party claiming benefits under this Agreement.

(ix) Calculating Time Periods. The period of time within which a benefit determination initially or on review is required to be made shall begin at the time a claim or request for review is filed in accordance with the procedures of the Agreement, without regard to whether all the information necessary to make a benefit determination accompanies the filing. In the event that a period of time is extended due to the failure of a claimant to submit information necessary to decide a claim or review, the period for

making the benefit determination shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information.

(x) Standards for Culturally and Linguistically Appropriate Notices. With respect to any notices required to be provided in a culturally and linguistically appropriate manner, the Agreement shall provide (i) oral language services in the applicable non-English language (that include answering questions in any applicable non-English language and providing assistance with filing claims in any applicable non-English language), (ii) a statement in the applicable non-English language, prominently displayed on notices, explaining how to access language services and (iii) notices in the applicable non-English language upon request. For this purpose, a non-English language is an applicable non-English language if 10% or more of the population residing in the county for which the notice is sent is literate only in the same non-English language.

(xi) Adjudication of Disability Benefit Claims: Independence and Impartiality. All claims and appeals with respect to benefits due to Executive being Permanently Disabled shall adjudicated in a manner designed to ensure the independence and impartiality of the persons involved in making the decision. Accordingly, decisions regarding hiring, compensation, termination, promotion, or other similar matters with respect to any individual (such as a claims adjudicator or medical or vocational expert) shall not be based upon the likelihood that the individual will support the denial of benefits.

(xii) Exhaustion of Administrative Remedies Available under the Agreement.

(1) In no event will Executive be entitled to challenge the Claims Administrator's decision in court or any other proceeding unless and until these claims procedures are exhausted. The Executive then shall have one hundred eighty (180) days from the date of receipt of the Claims Administrator's decision on appeal in which to file suit regarding a claim for benefits under this Agreement. If suit is not filed within such one hundred eighty (180)-day period, it shall be forever barred.

(2) Notwithstanding the foregoing, in the case of a claim for benefits due to Executive being Permanently Disabled, if the Claims Administrator or Appeals Fiduciary, as applicable, fails to strictly adhere to all the applicable requirements hereunder, the claimant is deemed to have exhausted the administrative remedies available under the Agreement, except as provided in the paragraph below with respect to de minimis violations. If the claimant chooses to pursue remedies under Section 502(a) of ERISA under such circumstances, the claim or appeal is deemed denied on review without the exercise of discretion by an appropriate fiduciary.

The administrative remedies available under the Agreement will not be deemed exhausted based on de minimis violations that do not cause, and are not likely to cause, prejudice or harm to the claimant, provided the Agreement demonstrates that the violation was for good cause or due to matters beyond the control of the Agreement and that the violation occurred in the context of an ongoing, good faith exchange of information between the Agreement and the claimant. A violation shall not be de minimis if it is part of a pattern or practice of violations by the Agreement. The claimant may request a written explanation of the violation from the Agreement, and the Agreement must provide such explanation within ten (10) days, including a specific description of its bases, if any, for asserting that the violation

should not cause the available administrative remedies to be deemed exhausted. If a court rejects the claimant's request for immediate review on the basis that the Agreement met the standards for the de minimis exception the claim shall be considered as refiled on appeal upon the Agreement's receipt of the court's decision. Within a reasonable time after the receipt of the decision, the Agreement shall provide the claimant with notice of the resubmission.

(xiii) Definitions. For purposes of the Agreement's claims procedures, the following words and phrases shall have the respective meanings set forth below:

(1) " Adverse benefit determination " means any of the following: a denial, reduction or termination of, or a failure to provide or make payment (in whole or in part) for, a benefit, including any such denial, reduction, termination, or failure to provide or make payment that is based on a determination of a claimant's eligibility to participate in a plan and with respect to a claim for benefits due to Executive being Permanently Disabled, shall also mean any rescission of disability coverage with respect to a Participant or Beneficiary (whether or not there is an adverse effect on any particular benefit at that time), where rescission means a cancellation or discontinuance of coverage that has retroactive effect, except to the extent it is attributable to a failure to timely pay required premiums or contributions towards the cost of coverage.

(2) " Appeals Fiduciary " means an individual or group of individuals appointed by the Claims Administrator to review appeals of claims for benefits payable due to the Executive being Permanently Disabled made pursuant to this Subsection (b).

(3) " Claims Administrator " means the Board of Directors or such other person designated by the Board of Directors from time to time and named by notice to Executive.

(4) A document, record, or other information shall be considered " relevant " to a claimant's claim if such document, record, or other information (A) was relied upon in making the benefit determination, (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination, (C) demonstrates compliance with the administrative processes and safeguards required in making the benefit determination, or (D) in the case of a claim for benefits due to Executive being Permanently Disabled, constitutes a statement of policy or guidance with respect to the Agreement concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.

(xiv) Person Authorized to Act on Behalf of Claimant. The Claims Administrator may establish reasonable procedures to permit an authorized person to act on behalf of the claimant (and for determining whether a person has been authorized to act on behalf of a claimant).

5. Funding by Bank.

(a) The benefit obligations of the Bank set forth herein constitute an unfunded

retirement arrangement, the obligations under which shall be reflected on the general ledger of the Bank (the “Retirement Liability”). The general corporate funds of the Bank shall be the sole source of payment of the Retirement Liability. The Bank shall be under no obligation to set aside, earmark or otherwise segregate any funds with which to pay the Retirement Liability. Executive and Executive’s Beneficiary or any successor in interest shall be and shall remain unsecured general creditors of the Bank with respect to the Retirement Liability. Executive and Executive’s Beneficiary shall have no interest in any property of the Bank or any other rights with respect thereto except to the extent of the contractual right to the Retirement Liability represented by the obligations described in Section 2 of this Agreement.

(b) Notwithstanding anything herein to the contrary, the Bank has no obligation whatsoever to set aside assets, either directly or indirectly, in a trust for purposes of paying the Retirement Liability under this Agreement. The Retirement Liability is not a deposit, is not otherwise funded by the Bank and is not insured by the Federal Deposit Insurance Corporation and does not constitute a trust account or any other special obligation of the Bank and does not have priority of payment over any other general obligations of the Bank. If the Bank determines in its sole discretion to set aside assets in a grantor trust for the purpose of paying benefits under this Agreement, the grantor trust shall not be located outside of the United States or subsequently transferred to any trust outside of the United States.

(c) Notwithstanding anything herein to the contrary, the Bank, in its sole discretion, may procure bank-owned life insurance covering the life of the Executive, with respect to which the Bank shall be the beneficiary, to pay the Bank’s obligations and to remain available to satisfy any claims of the Bank’s general creditors, under this Agreement. Executive agrees to fully cooperate with the Bank to enable the Bank to procure such life insurance, including undertaking a physical to the extent needed to procure the policy. Executive and Executive’s Beneficiary, however, shall have no interest in any such policy of the Bank or any other rights with respect to such policy, the proceeds of which will be paid to the Bank. The Bank in its sole discretion will determine whether to procure any such policy and, if the Bank elects to procure such policy, the face amount of such policy.

6. Employment of Executive; Other Agreements. The benefits provided for herein for Executive are supplemental retirement benefits and shall not be deemed to modify, affect or limit any salary or salary increases, bonuses, profit sharing or any other type of compensation of Executive in any manner whatsoever. No provision contained in this Agreement shall in any way affect, restrict or limit any existing employment agreement between the Bank and Executive, nor shall any provision or condition contained in this Agreement create specific employment or other service rights of Executive or limit the right of the Bank to discharge Executive with or without cause or otherwise terminate the Executive’s service on the Board of Directors.

7. Withholding.

(a) The Executive is responsible for payment of all taxes applicable to compensation and benefits paid or provided to the Executive under the Agreement, including federal and state income tax withholding, as applicable. The Bank shall withhold any taxes that, in its reasonable judgment, are required to be withheld, including but not limited to taxes owed under Code Section 409A and regulations thereunder, if any, and all employment taxes due to be paid by the Bank pursuant to Code Section 3121(v) and regulations promulgated thereunder (*i.e.* , Federal Insurance Contributions Act (“FICA”) taxes on the present value of payments hereunder which are no longer subject to vesting). The Bank’s sole liability regarding such taxes is to forward any amounts withheld to the appropriate taxing authority(ies). By participating in the Agreement, the Executive consents to the deduction of all tax withholdings attributable to participation in the Agreement from the benefits due under the Agreement or other payments due to the Executive by the Bank to satisfy the employee-portion of such obligations. If insufficient cash wages are available or, if the

Executive so desires, the Executive may remit payment in cash for the withholding amounts.

(b) Notwithstanding any other provision in the Agreement to the contrary, to the extent permitted by Code Section 409A, payments due under the Agreement may be accelerated to pay, where applicable, the FICA tax imposed under Code Sections 3101, 3121(a), and 3121(v)(2) and any state, local, and foreign tax obligations (the “Tax Obligations”) that may be imposed on amounts deferred pursuant to the Agreement prior to the time such amounts are paid or made available and to pay the income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of an accelerated payment of the Tax Obligations (the “Income Tax Obligations”). Accelerated payments pursuant to this Section 7(b) shall not exceed the amount of the Tax Obligations and Income Tax Obligations and shall be made as a payment directly to taxing authorities pursuant to the applicable withholding provisions. Any accelerated payments pursuant to this Section 7(b) shall reduce the benefit otherwise payable to the Executive pursuant to the Agreement.

(c) Notwithstanding any other provision in the Agreement to the contrary, the Executive shall be liable for all taxes related to payments under this Agreement, and the Bank shall not be liable to any interested party for any such taxes or if the Agreement fails to be exempt from or to comply with Code Section 409A. Moreover, the Bank and the Executive acknowledge that amounts payable under this Agreement may need to be bifurcated and made subject to different withholdings and reporting, given the benefits to accrue hereunder relate to both the Executive’s employment with the Bank and the Executive’s service on the Board of Directors.

8. Arbitration; Jury Trial Waiver.

(a) Except as otherwise expressly provided herein or in any other subsequent written agreement between Executive and the Bank, unless prohibited by law, any controversy or claim between Executive and the Bank, or between the respective successors or assigns of either, or between Executive and any of the Bank’s officers, employees, agents or affiliated entities, arising out of or relating to this Agreement or any representations, negotiations, or discussions leading up to this Agreement or any relationship that results from any of the foregoing, whether based on contract, an alleged tort, breach of warranty, or other legal theory (including claims of fraud, misrepresentation, suppression of material fact, fraud in the inducement, and breach of fiduciary obligation), and whether based on acts or omissions occurring or existing prior to, at the time of, or after the execution of this Agreement and whether asserted as an original or amended claim, counterclaim, cross-claim, or otherwise, shall be settled by binding arbitration; provided, however, that resort to arbitration as provided in this Section 8 may only be had after exhaustion of the claims procedure described in Subsection 4(b) followed by mediation under the Commercial Mediation Rules of the American Arbitration Association. Thereafter, arbitration of any unresolved claim shall be administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Any dispute regarding whether a particular claim is subject to arbitration will be decided by the arbitrator. Any court of competent jurisdiction may compel arbitration of claims pursuant to this Agreement.

(b) The arbitrator may award to the prevailing party pre-and post-award expenses of the arbitration, including the arbitrator’s fees and travel expenses, administrative fees, out-of-pocket expenses such as copying and telephone, court costs, witness fees, stenographer’s fees, and (if allowed by

applicable law) attorneys' fees. Otherwise, the parties will share equally the arbitrator's fee and travel expenses and administrative fees, and each party will bear its own expenses.

(c) This agreement to arbitrate disputes will survive the payment of all obligations under this Agreement and termination or performance of any transactions contemplated hereby between Executive and the Bank, and will continue in full force and effect unless Executive and the Bank otherwise expressly agree in writing.

(d) By entering into this Agreement, Executive and the Bank agree and acknowledge that:

(i) by agreeing to arbitrate disputes, Executive and the Bank are giving up the right to trial in a court and THE RIGHT TO TRIAL BY JURY of all claims that are subject to arbitration under this Agreement;

(ii) grounds for appeal of the arbitrator's decision are very limited; and

(iii) in some cases the arbitrator may be employed by, or may have worked closely with, a business in the same or a related type of business as the business engaged in by Executive or the Bank.

(e) EXECUTIVE AND THE BANK HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ALL DISPUTES, CONTROVERSIES AND CLAIMS BY, BETWEEN OR AGAINST EXECUTIVE OR THE BANK, WHETHER THE DISPUTE, CONTROVERSY OR CLAIM IS SUBMITTED TO ARBITRATION OR IS DECIDED BY A COURT.

Executive must initial here: _____

9. Miscellaneous Provisions.

(a) Counterparts. This Agreement may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument. This Agreement may be executed and delivered by facsimile transmission of an executed counterpart.

(b) Construction. As used in this Agreement, the neuter gender shall include the masculine and the feminine, the masculine and feminine genders shall be interchangeable among themselves and each with the neuter, the singular numbers shall include the plural, and the plural the singular. The term "person" shall include all persons and entities of every nature whatsoever, including, but not limited to, individuals, corporations, partnerships, governmental entities and associations. The terms "including," "included," "such as" and terms of similar import shall not imply the exclusion of other items not specifically enumerated.

(c) Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be held to be invalid, illegal, unenforceable or inconsistent with any present or future law, ruling, rule or regulation of any court, governmental or regulatory authority having jurisdiction over the subject matter of this Agreement, such provision shall be rescinded or modified in accordance with such law, ruling, rule or regulation and the remainder of this Agreement or the application of such provision to the person or circumstances other than those as to which it is held inconsistent shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

(d) Governing Law. This Agreement is made in the State of Maryland and shall be governed in all respects and construed in accordance with the laws of the State of Maryland, without regard to its conflicts of law principles, except to the extent superseded by the Federal laws of the United States.

(e) Binding Effect. This Agreement is binding upon the parties, their respective successors, assigns, heirs and legal representatives. Without limiting the foregoing this Agreement shall be binding upon any successor of the Bank whether by merger or acquisition of all or substantially all of the assets or liabilities of the Bank. This Agreement may not be assigned by any party without the prior written consent of each other party hereto.

(f) No Trust. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Bank and Executive, Executive's Beneficiary or any other person.

(g) Assignment of Rights and Benefits. No right or benefit provided in this Agreement will be transferable by Executive except, upon his death, to a named Beneficiary as provided in this Agreement. No right or benefit provided for in the Agreement will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit provided for in the Agreement will in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits; provided, however, that the undistributed portion of any benefit payable hereunder shall at all times be subject to set-off for debts owed by Executive to the Bank.

(h) Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and all prior or contemporaneous negotiations, agreements and understandings, whether oral or written, are hereby superseded, merged and integrated into this Agreement.

(i) Notices. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand, facsimile transmission or overnight courier, in which event the notice shall be deemed effective when delivered or transmitted. All notices and other communications under this Agreement shall be given to the parties hereto, at the following addresses:

Bank:

Shore United Bank
18 East Dover Street
Easton, MD 21601
Attention: CHRO

Executive: Address on file with Bank

(j) Non-waiver. No delay or failure by either party to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right.

(k) Headings. Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

(l) Accelerated Payouts in the Event of 409A Violations. Notwithstanding any other provision of the Agreement to the contrary, the Bank shall make payments hereunder before such payments are otherwise due if it determines that the provisions of the Agreement fail to meet the requirements of Code Section 409A and the rules and regulations promulgated thereunder; provided, however, that such payment(s) may not exceed the amount required to be included in income as a result of such failure to comply with the requirements of Code Section 409A and the rules and regulations promulgated thereunder and, to the extent permissible therein, any taxes, penalties, interest and costs attributable thereto.

10. Definitions. Where the following words and phrases appear in the Agreement, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(a) “Accrual Balance” means the liability that the Bank accrues, under Generally Accepted Accounting Principles (“GAAP”) as reasonably applied by the Bank, for the Bank’s obligation to the Executive under this Agreement in accordance with Accounting Principles Board Opinion Number 12, as amended by Statement of Financial Accounting Standards Number 106, and the Discount Rate. Any one of a variety of amortization methods may be used to determine the Accrual Balance. However, once chosen, the method must be consistently applied.

(b) “Beneficiary” shall mean the person(s) designated by the Executive to receive any death benefits described under Section 2(e) of the Agreement. The Executive shall designate his Beneficiary in writing to the Bank pursuant to procedures as may be established from time to time; provided, however, if no such designation has been made or if the Beneficiary predeceases Executive, the Beneficiary of Executive under this Agreement shall be Executive’s legally-married spouse, if any, or, if there is no legally-married surviving spouse, the Beneficiary shall be Executive’s estate.

(c) “Cause” shall have the same meaning given to the same or similar term in any employment agreement between the parties as may be in effect from time to time; provided, however, if there is no such term or similar term in the employment agreement or if there is no such employment agreement, then the term shall mean (i) intentional misconduct or gross malfeasance, or an act or acts of gross negligence in the course of employment or any material breach of the Executive’s obligations contained herein, including, without limitation, acts competitive with or deliberately harmful to the business of the Bank; (ii) any intentional misstatement or omission to the directors or executive officers of the Bank with respect to any matter; (iii) the intentional failure of the Executive to follow the reasonable instructions and policies of the Bank; (iv) the Executive’s conviction, admission or confession of any felony or an unlawful act involving active and willful fraud or moral turpitude; or (v) the violation by the Executive of applicable state and federal banking regulations, rules, or statutes. If there is a discharge of the Executive by the Bank for Cause, the Executive will be deemed to and shall resign from the Bank contemporaneously with the termination of the Executive’s employment.

(d) “Change in Control” shall mean (i) any transaction, whether by merger, consolidation, asset sale, recapitalization, reorganization, combination, stock purchase, tender offer, reverse stock split, or otherwise, which results in the acquisition of, or beneficial ownership (as such term is defined under rules and regulations promulgated under the Securities Exchange Act of 1934, as amended) by any entity, person or any group thereof acting in concert, of 50% or more of the outstanding shares of common stock of the Bank; or (ii) the sale of 50% or more of the

collective assets of the Bank. For purposes of this Section 10(d), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Bank. Change in Control shall be construed consistent with its meaning under Section 409A of the Code.

(e) “Code” means the Internal Revenue Code of 1986, as amended, and all applicable rules and regulations promulgated thereunder.

(f) “Continuous Service” shall mean continuous employment by the Executive with the Bank or any affiliates as a common law employee and/or continuous service by the Executive as a member of the Board of Directors.

(g) “Discount Rate” shall mean the interest rate designated by the Board of Directors for determining the present value of any benefits payable under this Agreement and/or the amount of the installment payments necessary to fully amortize the Accrual Balance at the designated Discount Rate over the specified payment period. The Board of Directors has the authority to designate and/or adjust the Discount Rate, in its sole discretion, so as to maintain the rate within reasonable standards according to GAAP and applicable bank regulatory guidance.

(h) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and all applicable rules and regulations promulgated thereunder,

(i) “Normal Retirement Age” means the attainment of age sixty-nine (69) by the Executive.

(j) “Normal Retirement Benefit” means one hundred fifty thousand dollars (\$150,000).

(k) “Permanently Disabled” shall mean any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months that results in Executive (i) being unable to engage in any substantial gainful activity; or (ii) receiving income replacement benefits for a period of not less than three (3) months under the Bank’s long-term disability plan covering Executive. The determination of whether Executive is Permanently Disabled shall be made by the Bank and shall be construed consistent with its meaning under Section 409A of the Code. If the Executive becomes Permanently Disabled, the Executive will be deemed to and shall resign from the Bank contemporaneously with the Executive becoming Permanently Disabled.

(l) “Separation from Service” shall mean (i) a termination of the Executive’s employment where either (A) the Executive has ceased to perform any services for the Bank and all affiliated companies that, together with the Bank, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder (collectively, the “Service Recipient”) or (B) the level of bona fide services the Executive performs for the Service Recipient after a given date (whether as an employee or as an independent contractor) permanently decreases (excluding either a decrease as a result of military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six (6) months, or if longer, so long as the Executive retains a right to reemployment with the Service Recipient under an applicable statute or by contract or any other decrease permitted under Code Section 409A) to no more than twenty percent (20%) of the average level of bona fide services performed for the Service Recipient (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of service if the Executive has been providing services to the Service

Recipient for less than 36 months), and (ii) a termination of the Executive's service on the Bank, in each case, consistent with a "separation from service" within the meaning of Code Section 409A. Given the Executive is to be provided retirement benefits under the Agreement in return for his services as both an employee of the Bank and a member of the Board of Directors, the Executive will need to separate from service both as an employee and as a member of the Board of Directors to be treated as having a Separation from Service for purposes of this Agreement. All references to termination or discharge of employment and/or service shall be deemed to refer to a "separation from service."

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

SHORE UNITED BANK:

By: _____

Name: _____

Title: _____

EXECUTIVE :

/s/ Lloyd L. Beatty, Jr. _____

Lloyd L. Beatty, Jr.

**DESIGNATION OF BENEFICIARY FORM
UNDER
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

Pursuant to Section 10(b) of the SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (the “ Agreement ”), I, Scott Beatty, hereby designate the beneficiary(ies) listed below to receive any benefits under the Agreement that may be due following my death. This designation shall replace and revoke any prior designation of beneficiary(ies) made by me under the Agreement.

Full Name(s), Address(es) and Social Security Number(s) of **Primary Beneficiary(ies)** *:

*If more than one beneficiary is named above, the beneficiaries will share equally in any benefits, unless you have otherwise provided above. Further, if you have named more than one beneficiary and one or more of the beneficiaries is deceased at the time of your death, any remaining beneficiary(ies) will share equally, unless you have provided otherwise above. If no primary beneficiary survives you, then the contingent beneficiary designated below will receive any benefits due upon your death. In the event you have no designated beneficiary upon your death, any benefits due will be paid to your legally-married spouse, if any, or, if there is no legally-married surviving spouse, to your estate. In the event that you are naming a beneficiary that is not a person, please provide pertinent information regarding the designation.

Full Name, Address and Social Security Number of **Contingent Beneficiary** :

Date _____ Lloyd L. Beatty, Jr.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

This **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN** (this “Agreement”) is made and entered into this 19th day of July, 2019 (the “Effective Date”), by and among **SHORE UNITED BANK**, a Maryland bank (the “Bank”), and Edward Allen (the “Executive”). Capitalized terms used herein are defined in Section 10 of this Agreement.

BACKGROUND

To incentivize the Executive to devote his full business time, attention, and energies to the business of the Bank, the Bank and the Executive desire to enter into this Agreement to establish the terms and conditions of the nonqualified supplemental executive retirement plan to be maintained by the Bank on the Executive’s behalf.

AGREEMENT

In consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound hereby, the parties hereby agree as follows:

1. General Terms and Conditions. The Bank hereby establishes a nonqualified supplemental executive retirement plan for the benefit of the Executive. Section 2 below describes the benefits available to the Executive, or the Executive’s Beneficiary, upon the occurrence of certain events as described in, and subject to the terms and conditions of, this Agreement; provided the Executive remains in the Continuous Service of the Bank from the Effective Date until the specified event. Each benefit described in Section 2 is in lieu of any other benefit therein. No benefits under this Agreement shall be payable with respect to any event other than the events described below, and the benefits otherwise payable pursuant to Section 2 below are subject to the further limitations in Section 2(f) and (g).

2. Retirement Benefits.

(a) Termination on or after Normal Retirement Age. If Executive remains in the Continuous Service of the Bank until on or after attaining Normal Retirement Age, then following the date on which the Executive experiences a Separation from Service on or after Normal Retirement Age (the “Normal Retirement Date”) for any reason other than (i) discharge of the Executive by the Bank for Cause, (ii) because the Executive dies or becomes Permanently Disabled or (iii) on or within twelve (12) months following the effective date of a Change in Control, the Bank shall pay to the Executive the Normal Retirement Benefit each year for ten (10) years. Payment of the Normal Retirement Benefit shall commence upon the Executive’s Normal Retirement Date, beginning with the month immediately following the Executive’s Normal Retirement Date, and be paid in twelve (12) equal monthly installments (without interest) on the first day of each month thereafter until paid in full.

(b) Termination Prior to Normal Retirement Age. If the Executive experiences a Separation from Service prior to attaining Normal Retirement Age for any reason other than (i) discharge of the Executive by the Bank for Cause, (ii) because the Executive dies or becomes Permanently Disabled or (iii) on or within twelve (12) months following the effective date of a Change in Control, then the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days after the Executive’s Separation from Service an amount equal to the Accrual

Balance as of the date of Executive's Separation from Service.

(c) Termination in Connection with a Change in Control. If before, on or after Normal Retirement Age, the Executive experiences a Separation from Service on or within the twelve (12) months following the effective date of a Change in Control for any reason other than (i) discharge of the Executive by the Bank for Cause or (ii) because the Executive dies or becomes Permanently Disabled, then the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days after the Executive's Separation from Service an amount equal to the present value of the Participant's Normal Retirement Benefit discounted using the current discount rate being utilized to calculate GAAP liabilities and assuming payments commence immediately.

(d) Disability. If Executive becomes Permanently Disabled while in the Continuous Service of the Bank and before any event described in Subsections (a), (b) or (c) above, the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days following the date on which the Executive becomes Permanently Disabled an amount equal to the Accrual Balance as of the date Executive becomes Permanently Disabled.

(e) Death. If the Executive dies while in the Continuous Service of the Bank and before the occurrence of any event triggering the Executive's entitlement to a benefit under this Section 2, then the Executive's Beneficiary shall receive in a single lump sum on or within thirty (30) days after the Executive's death an amount equal to the Accrual Balance at the time of Executive's death. If Executive dies after the occurrence of any event triggering the Executive's entitlement to a benefit under this Section 2 and prior to payment of the entire Accrual Balance, the Executive's Beneficiary shall receive in a single lump sum on or within thirty (30) days after the Executive's death an amount equal to the remaining Accrual Balance at the time of Executive's death.

(f) Forfeiture of Benefits; Regulatory Limitations. Notwithstanding any other provision of this Agreement, if (i) the Bank discharges the Executive for Cause, or grounds exist for the Bank to discharge the Executive for Cause, regardless of whether an event triggering an entitlement to a benefit under Subsection (a) through (e) has occurred, no benefits shall be paid under this Agreement and any previously paid amounts shall be repaid to Bank by Executive upon five (5) days' notice. The obligations of the Bank under this Agreement are further subject to its adherence to applicable state and federal banking regulations, rules, or statutes.

(g) Temporary Suspension Applicable to a Specified Employee. Notwithstanding the foregoing provisions of this Section 2, if Executive is a "specified employee," within the meaning of Code Section 409A, as of the date of Executive's Separation from Service with the Bank other than by reason of death, payment of benefit amounts otherwise due shall be delayed to the extent necessary under Code Section 409A until the earlier of six (6) months after Separation from Service or the date of Executive's death, as applicable. Any payments that are so delayed shall be paid in a single lump sum in cash in the seventh month following Executive's Separation from Service, or within thirty (30) days after the Executive's death, if earlier.

3. Amendment; Termination. This Agreement may be amended or terminated only by a written agreement signed by the Bank and the Executive. The Bank may unilaterally amend the Agreement to conform with written directives to the Bank to comply with legislative changes or tax law, including, without limitation, Code Section 409A and any and all Treasury regulations and guidance promulgated thereunder. No amendment shall provide for or otherwise permit any acceleration of the time or schedule of any payment under the Agreement in a manner that would be prohibited under Code Section 409A. No waiver of any provision contained in this Agreement shall be effective unless it is in writing and signed by

the party against whom such waiver is asserted. Notwithstanding the preceding provisions of this Section 3, the Bank may elect to terminate the Agreement under any circumstances permitted by Treasury Regulations Section 1.409A-3(j)(4)(ix). In any such event, the Bank shall distribute to the Executive the Accrual Balance in a single lump sum at the earliest date permitted under such Treasury Regulations. The amount of the benefit (but not the timing of payment) shall be determined as if the effective date of the termination of the Agreement constituted an involuntary discharge by the Bank other than for Cause on or within twelve (12) months following a Change in Control.

4. ERISA Provisions.

(a) Plan Administrator Duties. This Agreement shall be administered by the Board of Directors of the Bank (the “Board of Directors”), or such committee or person(s) as the Board of Directors shall appoint, except that the Executive may not participate in any such actions and will excuse himself from participating in any such matter involving himself and/or this Agreement. The Board of Directors, (or its delegatee(s)) in its capacity as the “administrator” of the Agreement for purposes of ERISA, shall have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Agreement; and (ii) decide or resolve any and all questions including interpretations of this Agreement, as may arise in connection with the Agreement. The decision or action of the Board of Directors (or its delegatee) with respect to any question arising out of or in connection with the administration, interpretation and application of the Agreement and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Agreement. The “Named Fiduciary” under the Agreement is the Bank.

(b) Claims Procedures.

(i) Notice of Denial.

(1) If Executive or a Beneficiary (a “claimant”) is denied a claim for benefits under this Agreement, the Claims Administrator shall provide to the claimant written notice of the adverse benefit determination (whether such claim is denied in whole or in part) within a reasonable period of time but no later than ninety (90) days after the Claims Administrator receives the claim. However, under special circumstances (to be determined by the Claims Administrator), the Claims Administrator may extend the time for processing the claim to a day no later than one hundred eighty (180) days after the Claims Administrator receives the claim. The claimant shall be notified in writing within the initial 90-day period of the need to extend the time for review, the special circumstances requiring an extension, and the date by which a decision is expected.

(2) With respect to a claim for benefits due to Executive being Permanently Disabled, the Claims Administrator shall provide to the claimant written notice of the adverse benefit determination within a reasonable period of time but no later than forty-five (45) days after the Claims Administrator receives the claim. This 45-day period may be extended up to thirty (30) days if an extension is necessary due to matters beyond the control of the Agreement (to be determined by the Claims Administrator) and the claimant is notified, prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which the Claims Administrator expects to render a decision. If, prior to the end of the first 30-day extension period, the Claims Administrator determines that, due to matters beyond the control of the Agreement

(to be determined by the Claims Administrator), a decision cannot be rendered within that extension period, the period for making the determination may be extended for up to an additional thirty (30) days, provided that the Claims Administrator notifies the claimant, prior to the expiration of the initial 30-day extension period, of the circumstances requiring the extension and the date as of which the Claims Administrator expects to render a decision. In the case of any such extension, the notice of extension shall also specifically explain the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall have at least forty-five (45) days within which to provide the specified information, if any.

(ii) Contents of Notice of Denial. If a claimant is denied a claim for benefits under this Agreement, the Claims Administrator shall provide to such claimant written notice of the denial. Any such notice of an adverse benefit determination shall be written in a manner calculated to be understood by the claimant (and with respect to a claim for benefits due to Executive being Permanently Disabled, be provided in a culturally and linguistically appropriate manner) and shall set forth:

- (1) the specific reason or reasons for the denial;
- (2) specific references to the pertinent provisions of this Agreement on which the denial is based;
- (3) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary;
- (4) an explanation of this Agreement's claim review procedures, and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review;
- (5) in the case of a claim for benefits due to Executive being Permanently Disabled:
 - (A) a discussion of the decision, including an explanation of the basis for disagreeing with or not following: the views presented by the claimant to the Agreement of health care professionals treating the claimant and vocational professionals who evaluated the claimant, the views of medical or vocational experts whose advice was obtained on behalf of the Agreement in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the benefit determination, and a disability determination regarding the claimant presented by the claimant to the Agreement made by the Social Security Administration;
 - (B) if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Agreement to the claimant's medical

circumstances, or a statement that such explanation will be provided free of charge upon request in writing;

(C) the specific internal rules, guidelines, protocols, standards or other similar criteria of the Agreement relied upon in making the adverse determination, or, alternatively, a statement that such rules, guidelines, protocols, standards or other similar criteria of the Agreement do not exist; and

(D) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

(iii) Right to Review. After receiving written notice of the denial of a claim, a claimant or his representative shall be entitled to:

(1) submit written comments, documents, records, and other information relating to the denied claim to the Claims Administrator or Appeals Fiduciary, as applicable; and

(2) request, free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim

(3) request a full and fair review of the denial of the claim by written application to the Claims Administrator (or Appeals Fiduciary in the case of a claim for benefits payable due to Executive being Permanently Disabled), which shall include:

(A) a review that takes into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination; and

(B) in the case of a claim for benefits due to Executive being Permanently Disabled:

i. before issuing an adverse benefit determination on review, providing the claimant, free of charge with any new or additional evidence considered, relied upon, or generated by the Agreement or other person making the benefit determination (or at the direction of the Agreement or such other person) in connection with the claim as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the claimant a reasonable opportunity to respond prior to that date; and

ii. before issuing an adverse benefit determination on review based on a new or additional rationale, providing the claimant, free of charge, with the rationale as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the claimant a reasonable opportunity to respond prior to that date.

(iv) Application for Review.

(1) If a claimant wishes a review of the decision denying his claim to benefits under this Agreement, other than a claim described in paragraph (2) of this Section 4(b)(iv), he must submit the written application to the Claims Administrator within sixty (60) days after receiving written notice of the denial.

(2) If the claimant wishes a review of the decision denying his claim to benefits under this Agreement due to Executive being Permanently Disabled, he must submit the written application to the Appeals Fiduciary within one hundred eighty (180) days after receiving written notice of the denial.

(v) Hearing. Upon receiving such written application for review, the Claims Administrator or Appeals Fiduciary, as applicable, may schedule a hearing for purposes of reviewing the claimant's claim, which hearing shall take place not more than thirty (30) days from the date on which the Claims Administrator or Appeals Fiduciary received such written application for review.

(vi) Notice of Hearing. At least ten (10) days prior to the scheduled hearing, the claimant and his representative designated in writing by him, if any, shall receive written notice of the date, time, and place of such scheduled hearing. The claimant or his representative, if any, may request that the hearing be rescheduled, for his convenience, on another reasonable date or at another reasonable time or place.

(vii) Counsel. All claimants requesting a review of the decision denying their claim for benefits may employ counsel for purposes of the hearing.

(viii) Decision on Review. No later than sixty (60) days (forty-five (45) days with respect to a claim for benefits due to Executive being Permanently Disabled) following the receipt of the written application for review, the Claims Administrator or the Appeals Fiduciary, as applicable, shall submit its decision on the review in writing to the claimant involved and to his representative, if any, unless the Claims Administrator or Appeals Fiduciary determines that special circumstances (such as the need to hold a hearing) require an extension of time, to a day no later than one hundred twenty (120) days (ninety (90) days with respect to a claim for benefits due to Executive being Permanently Disabled) after the date of receipt of the written application for review. If the Claims Administrator or Appeals Fiduciary determines that the extension of time is required, the Claims Administrator or Appeals Fiduciary shall furnish to the claimant written notice of the extension before the expiration of the initial sixty (60) day (forty-five (45) days with respect to a claim for benefits due to Executive being Permanently Disabled) period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Claims Administrator or Appeals Fiduciary expects to render its decision on review. In the case of a decision adverse to the claimant, the Claims Administrator or Appeals Fiduciary shall provide to the claimant written notice of the denial. Any such notice of an adverse benefit determination shall be written in a manner calculated to be understood by the claimant (and with respect to a claim for benefits due to Executive being Permanently Disabled, be provided in a culturally and linguistically appropriate manner) and shall include:

- (1) the specific reason or reasons for the adverse benefit determination;
- (2) specific references to the pertinent provisions of this Agreement

on which the adverse benefit determination is based;

(3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;

(4) a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following the adverse benefit determination on review;

(5) a statement regarding the availability of other voluntary alternative dispute resolution options;

(6) in the case of a claim for benefits due to Executive being Permanently Disabled:

(A) a description of any contractual limitations period that applies to the claimant's right to bring a civil action under Section 502(a) of ERISA, including the calendar date on which the contractual limitations period expires for the claim;

(B) a discussion of the decision, including an explanation of the basis for disagreeing with or not following: the views presented by the claimant to the Agreement of health care professionals treating the claimant and vocational professionals who evaluated the claimant, the views of medical or vocational professionals whose advice was obtained on behalf of the Agreement in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the determination, and a disability determination regarding the claimant presented by the claimant to the Agreement made by the Social Security Administration;

(C) if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Agreement to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request; and

(D) the specific internal rules, guidelines, protocols, standards or other similar criteria of the Agreement relied upon in making the adverse determination, or a statement that such rules, guidelines, protocols, standards or other similar criteria do not exist.

The Claims Administrator has the discretionary authority to determine all interpretative issues arising under this Agreement and the interpretations of the Claims Administrator shall be final and binding upon Executive or any other party claiming benefits under this Agreement.

(ix) Calculating Time Periods. The period of time within which a benefit determination initially or on review is required to be made shall begin at the time a claim or request for review is filed in accordance with the procedures of the Agreement, without regard to whether all the information necessary to make a benefit determination

accompanies the filing. In the event that a period of time is extended due to the failure of a claimant to submit information necessary to decide a claim or review, the period for making the benefit determination shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information.

(x) Standards for Culturally and Linguistically Appropriate Notices. With respect to any notices required to be provided in a culturally and linguistically appropriate manner, the Agreement shall provide (i) oral language services in the applicable non-English language (that include answering questions in any applicable non-English language and providing assistance with filing claims in any applicable non-English language), (ii) a statement in the applicable non-English language, prominently displayed on notices, explaining how to access language services and (iii) notices in the applicable non-English language upon request. For this purpose, a non-English language is an applicable non-English language if 10% or more of the population residing in the county for which the notice is sent is literate only in the same non-English language.

(xi) Adjudication of Disability Benefit Claims: Independence and Impartiality. All claims and appeals with respect to benefits due to Executive being Permanently Disabled shall adjudicated in a manner designed to ensure the independence and impartiality of the persons involved in making the decision. Accordingly, decisions regarding hiring, compensation, termination, promotion, or other similar matters with respect to any individual (such as a claims adjudicator or medical or vocational expert) shall not be based upon the likelihood that the individual will support the denial of benefits.

(xii) Exhaustion of Administrative Remedies Available under the Agreement.

(1) In no event will Executive be entitled to challenge the Claims Administrator's decision in court or any other proceeding unless and until these claims procedures are exhausted. The Executive then shall have one hundred eighty (180) days from the date of receipt of the Claims Administrator's decision on appeal in which to file suit regarding a claim for benefits under this Agreement. If suit is not filed within such one hundred eighty (180)-day period, it shall be forever barred.

(2) Notwithstanding the foregoing, in the case of a claim for benefits due to Executive being Permanently Disabled, if the Claims Administrator or Appeals Fiduciary, as applicable, fails to strictly adhere to all the applicable requirements hereunder, the claimant is deemed to have exhausted the administrative remedies available under the Agreement, except as provided in the paragraph below with respect to de minimis violations. If the claimant chooses to pursue remedies under Section 502(a) of ERISA under such circumstances, the claim or appeal is deemed denied on review without the exercise of discretion by an appropriate fiduciary.

The administrative remedies available under the Agreement will not be deemed exhausted based on de minimis violations that do not cause, and are not likely to cause, prejudice or harm to the claimant, provided the Agreement demonstrates that the violation was for good cause or due to matters beyond the control of the Agreement and that the violation occurred in the context of an ongoing, good faith exchange of information between the Agreement and the claimant. A violation shall not be de minimis if it is part of a pattern or practice of violations by the Agreement. The claimant may request a

written explanation of the violation from the Agreement, and the Agreement must provide such explanation within ten (10) days, including a specific description of its bases, if any, for asserting that the violation should not cause the available administrative remedies to be deemed exhausted. If a court rejects the claimant's request for immediate review on the basis that the Agreement met the standards for the de minimis exception the claim shall be considered as refiled on appeal upon the Agreement's receipt of the court's decision. Within a reasonable time after the receipt of the decision, the Agreement shall provide the claimant with notice of the resubmission.

(xiii) Definitions. For purposes of the Agreement's claims procedures, the following words and phrases shall have the respective meanings set forth below:

(1) “Adverse benefit determination” means any of the following: a denial, reduction or termination of, or a failure to provide or make payment (in whole or in part) for, a benefit, including any such denial, reduction, termination, or failure to provide or make payment that is based on a determination of a claimant's eligibility to participate in a plan and with respect to a claim for benefits due to Executive being Permanently Disabled, shall also mean any rescission of disability coverage with respect to a Participant or Beneficiary (whether or not there is an adverse effect on any particular benefit at that time), where rescission means a cancellation or discontinuance of coverage that has retroactive effect, except to the extent it is attributable to a failure to timely pay required premiums or contributions towards the cost of coverage.

(2) “Appeals Fiduciary” means an individual or group of individuals appointed by the Claims Administrator to review appeals of claims for benefits payable due to the Executive being Permanently Disabled made pursuant to this Subsection (b).

(3) “Claims Administrator” means the Board of Directors or such other person designated by the Board of Directors from time to time and named by notice to Executive.

(4) A document, record, or other information shall be considered “relevant” to a claimant's claim if such document, record, or other information (A) was relied upon in making the benefit determination, (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination, (C) demonstrates compliance with the administrative processes and safeguards required in making the benefit determination, or (D) in the case of a claim for benefits due to Executive being Permanently Disabled, constitutes a statement of policy or guidance with respect to the Agreement concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.

(xiv) Person Authorized to Act on Behalf of Claimant. The Claims Administrator may establish reasonable procedures to permit an authorized person to act on behalf of the claimant (and for determining whether a person has been authorized to act on behalf of a claimant).

5. Funding by Bank.

(a) The benefit obligations of the Bank set forth herein constitute an unfunded retirement arrangement, the obligations under which shall be reflected on the general ledger of the Bank (the “Retirement Liability”). The general corporate funds of the Bank shall be the sole source of payment of the Retirement Liability. The Bank shall be under no obligation to set aside, earmark or otherwise segregate any funds with which to pay the Retirement Liability. Executive and Executive’s Beneficiary or any successor in interest shall be and shall remain unsecured general creditors of the Bank with respect to the Retirement Liability. Executive and Executive’s Beneficiary shall have no interest in any property of the Bank or any other rights with respect thereto except to the extent of the contractual right to the Retirement Liability represented by the obligations described in Section 2 of this Agreement.

(b) Notwithstanding anything herein to the contrary, the Bank has no obligation whatsoever to set aside assets, either directly or indirectly, in a trust for purposes of paying the Retirement Liability under this Agreement. The Retirement Liability is not a deposit, is not otherwise funded by the Bank and is not insured by the Federal Deposit Insurance Corporation and does not constitute a trust account or any other special obligation of the Bank and does not have priority of payment over any other general obligations of the Bank. If the Bank determines in its sole discretion to set aside assets in a grantor trust for the purpose of paying benefits under this Agreement, the grantor trust shall not be located outside of the United States or subsequently transferred to any trust outside of the United States.

(c) Notwithstanding anything herein to the contrary, the Bank, in its sole discretion, may procure bank-owned life insurance covering the life of the Executive, with respect to which the Bank shall be the beneficiary, to pay the Bank’s obligations and to remain available to satisfy any claims of the Bank’s general creditors, under this Agreement. Executive agrees to fully cooperate with the Bank to enable the Bank to procure such life insurance, including undertaking a physical to the extent needed to procure the policy. Executive and Executive’s Beneficiary, however, shall have no interest in any such policy of the Bank or any other rights with respect to such policy, the proceeds of which will be paid to the Bank. The Bank in its sole discretion will determine whether to procure any such policy and, if the Bank elects to procure such policy, the face amount of such policy.

6. Employment of Executive; Other Agreements. The benefits provided for herein for Executive are supplemental retirement benefits and shall not be deemed to modify, affect or limit any salary or salary increases, bonuses, profit sharing or any other type of compensation of Executive in any manner whatsoever. No provision contained in this Agreement shall in any way affect, restrict or limit any existing employment agreement between the Bank and Executive, nor shall any provision or condition contained in this Agreement create specific employment or other service rights of Executive or limit the right of the Bank to discharge Executive with or without cause.

7. Withholding.

(a) The Executive is responsible for payment of all taxes applicable to compensation and benefits paid or provided to the Executive under the Agreement, including federal and state income tax withholding, as applicable. The Bank shall withhold any taxes that, in its reasonable judgment, are required to be withheld, including but not limited to taxes owed under Code Section 409A and regulations thereunder, if any, and all employment taxes due to be paid by the Bank pursuant to Code Section 3121(v) and regulations promulgated thereunder (*i.e.* , Federal Insurance Contributions Act (“FICA”) taxes on the present value of payments hereunder which are no longer subject to vesting). The Bank’s sole liability regarding such taxes is to forward any amounts withheld to the appropriate taxing authority(ies). By participating in the Agreement, the Executive consents to the deduction of all tax withholdings attributable to participation in the Agreement from the benefits due under the Agreement or other payments due to the Executive by the Bank to satisfy the employee-portion of such obligations. If insufficient cash wages are available or, if the

Executive so desires, the Executive may remit payment in cash for the withholding amounts.

(b) Notwithstanding any other provision in the Agreement to the contrary, to the extent permitted by Code Section 409A, payments due under the Agreement may be accelerated to pay, where applicable, the FICA tax imposed under Code Sections 3101, 3121(a), and 3121(v)(2) and any state, local, and foreign tax obligations (the “Tax Obligations”) that may be imposed on amounts deferred pursuant to the Agreement prior to the time such amounts are paid or made available and to pay the income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of an accelerated payment of the Tax Obligations (the “Income Tax Obligations”). Accelerated payments pursuant to this Section 7(b) shall not exceed the amount of the Tax Obligations and Income Tax Obligations and shall be made as a payment directly to taxing authorities pursuant to the applicable withholding provisions. Any accelerated payments pursuant to this Section 7(b) shall reduce the benefit otherwise payable to the Executive pursuant to the Agreement.

(c) Notwithstanding any other provision in the Agreement to the contrary, the Executive shall be liable for all taxes related to payments under this Agreement, and the Bank shall not be liable to any interested party for any such taxes or if the Agreement fails to be exempt from or to comply with Code Section 409A. Moreover, the Bank and the Executive acknowledge that amounts payable under this Agreement may need to be bifurcated and made subject to different withholdings and reporting, given the benefits to accrue hereunder relate to the Executive’s employment with the Bank.

8. Arbitration; Jury Trial Waiver.

(a) Except as otherwise expressly provided herein or in any other subsequent written agreement between Executive and the Bank, unless prohibited by law, any controversy or claim between Executive and the Bank, or between the respective successors or assigns of either, or between Executive and any of the Bank’s officers, employees, agents or affiliated entities, arising out of or relating to this Agreement or any representations, negotiations, or discussions leading up to this Agreement or any relationship that results from any of the foregoing, whether based on contract, an alleged tort, breach of warranty, or other legal theory (including claims of fraud, misrepresentation, suppression of material fact, fraud in the inducement, and breach of fiduciary obligation), and whether based on acts or omissions occurring or existing prior to, at the time of, or after the execution of this Agreement and whether asserted as an original or amended claim, counterclaim, cross-claim, or otherwise, shall be settled by binding arbitration; provided, however, that resort to arbitration as provided in this Section 8 may only be had after exhaustion of the claims procedure described in Subsection 4(b) followed by mediation under the Commercial Mediation Rules of the American Arbitration Association. Thereafter, arbitration of any unresolved claim shall be administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Any dispute regarding whether a particular claim is subject to arbitration will be decided by the arbitrator. Any court of competent jurisdiction may compel arbitration of claims pursuant to this Agreement.

(b) The arbitrator may award to the prevailing party pre-and post-award expenses of the arbitration, including the arbitrator’s fees and travel expenses, administrative fees, out-of-pocket expenses such as copying and telephone, court costs, witness fees, stenographer’s fees, and (if allowed by

applicable law) attorneys' fees. Otherwise, the parties will share equally the arbitrator's fee and travel expenses and administrative fees, and each party will bear its own expenses.

(c) This agreement to arbitrate disputes will survive the payment of all obligations under this Agreement and termination or performance of any transactions contemplated hereby between Executive and the Bank, and will continue in full force and effect unless Executive and the Bank otherwise expressly agree in writing.

(d) By entering into this Agreement, Executive and the Bank agree and acknowledge that:

(i) by agreeing to arbitrate disputes, Executive and the Bank are giving up the right to trial in a court and THE RIGHT TO TRIAL BY JURY of all claims that are subject to arbitration under this Agreement;

(ii) grounds for appeal of the arbitrator's decision are very limited; and

(iii) in some cases the arbitrator may be employed by, or may have worked closely with, a business in the same or a related type of business as the business engaged in by Executive or the Bank.

(e) EXECUTIVE AND THE BANK HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ALL DISPUTES, CONTROVERSIES AND CLAIMS BY, BETWEEN OR AGAINST EXECUTIVE OR THE BANK, WHETHER THE DISPUTE, CONTROVERSY OR CLAIM IS SUBMITTED TO ARBITRATION OR IS DECIDED BY A COURT.

Executive must initial here: _____

9. Miscellaneous Provisions.

(a) Counterparts. This Agreement may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument. This Agreement may be executed and delivered by facsimile transmission of an executed counterpart.

(b) Construction. As used in this Agreement, the neuter gender shall include the masculine and the feminine, the masculine and feminine genders shall be interchangeable among themselves and each with the neuter, the singular numbers shall include the plural, and the plural the singular. The term "person" shall include all persons and entities of every nature whatsoever, including, but not limited to, individuals, corporations, partnerships, governmental entities and associations. The terms "including," "included," "such as" and terms of similar import shall not imply the exclusion of other items not specifically enumerated.

(c) Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be held to be invalid, illegal, unenforceable or inconsistent with any present or future law, ruling, rule or regulation of any court, governmental or regulatory authority having jurisdiction over the subject matter of this Agreement, such provision shall be rescinded or modified in accordance with such law, ruling, rule or regulation and the remainder of this Agreement or the application of such provision to the person or circumstances other than those as to which it is held inconsistent shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

(d) Governing Law. This Agreement is made in the State of Maryland and shall be governed in all respects and construed in accordance with the laws of the State of Maryland, without regard to its conflicts of law principles, except to the extent superseded by the Federal laws of the United States.

(e) Binding Effect. This Agreement is binding upon the parties, their respective successors, assigns, heirs and legal representatives. Without limiting the foregoing this Agreement shall be binding upon any successor of the Bank whether by merger or acquisition of all or substantially all of the assets or liabilities of the Bank. This Agreement may not be assigned by any party without the prior written consent of each other party hereto.

(f) No Trust. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Bank and Executive, Executive's Beneficiary or any other person.

(g) Assignment of Rights and Benefits. No right or benefit provided in this Agreement will be transferable by Executive except, upon his death, to a named Beneficiary as provided in this Agreement. No right or benefit provided for in the Agreement will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit provided for in the Agreement will in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits; provided, however, that the undistributed portion of any benefit payable hereunder shall at all times be subject to set-off for debts owed by Executive to the Bank.

(h) Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and all prior or contemporaneous negotiations, agreements and understandings, whether oral or written, are hereby superseded, merged and integrated into this Agreement.

(i) Notices. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand, facsimile transmission or overnight courier, in which event the notice shall be deemed effective when delivered or transmitted. All notices and other communications under this Agreement shall be given to the parties hereto, at the following addresses:

Bank:

Shore United Bank
18 East Dover Street
Easton, MD 21601
Attention: CHRO

Executive: Address on file with Bank

(j) Non-waiver. No delay or failure by either party to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right.

(k) Headings. Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

(l) Accelerated Payouts in the Event of 409A Violations. Notwithstanding any other provision of the Agreement to the contrary, the Bank shall make payments hereunder before such payments are otherwise due if it determines that the provisions of the Agreement fail to meet the requirements of Code Section 409A and the rules and regulations promulgated thereunder; provided, however, that such payment(s) may not exceed the amount required to be included in income as a result of such failure to comply with the requirements of Code Section 409A and the rules and regulations promulgated thereunder and, to the extent permissible therein, any taxes, penalties, interest and costs attributable thereto.

10. Definitions. Where the following words and phrases appear in the Agreement, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(a) “Accrual Balance” means the liability that the Bank accrues, under Generally Accepted Accounting Principles (“GAAP”) as reasonably applied by the Bank, for the Bank’s obligation to the Executive under this Agreement in accordance with Accounting Principles Board Opinion Number 12, as amended by Statement of Financial Accounting Standards Number 106, and the Discount Rate. Any one of a variety of amortization methods may be used to determine the Accrual Balance. However, once chosen, the method must be consistently applied.

(b) “Beneficiary” shall mean the person(s) designated by the Executive to receive any death benefits described under Section 2(e) of the Agreement. The Executive shall designate his Beneficiary in writing to the Bank pursuant to procedures as may be established from time to time; provided, however, if no such designation has been made or if the Beneficiary predeceases Executive, the Beneficiary of Executive under this Agreement shall be Executive’s legally-married spouse, if any, or, if there is no legally-married surviving spouse, the Beneficiary shall be Executive’s estate.

(c) “Cause” shall have the same meaning given to the same or similar term in any employment agreement between the parties as may be in effect from time to time; provided, however, if there is no such term or similar term in the employment agreement or if there is no such employment agreement, then the term shall mean (i) intentional misconduct or gross malfeasance, or an act or acts of gross negligence in the course of employment or any material breach of the Executive’s obligations contained herein, including, without limitation, acts competitive with or deliberately harmful to the business of the Bank; (ii) any intentional misstatement or omission to the directors or executive officers of the Bank with respect to any matter; (iii) the intentional failure of the Executive to follow the reasonable instructions and policies of the Bank; (iv) the Executive’s conviction, admission or confession of any felony or an unlawful act involving active and willful fraud or moral turpitude; or (v) the violation by the Executive of applicable state and federal banking regulations, rules, or statutes. If there is a discharge of the Executive by the Bank for Cause, the Executive will be deemed to and shall resign from the Bank contemporaneously with the termination of the Executive’s employment.

(d) “Change in Control” shall mean (i) any transaction, whether by merger, consolidation, asset sale, recapitalization, reorganization, combination, stock purchase, tender offer, reverse stock split, or otherwise, which results in the acquisition of, or beneficial ownership (as such term is defined under rules and regulations promulgated under the Securities Exchange Act of 1934, as amended) by any entity, person or any group thereof acting in concert, of 50% or more of the outstanding shares of common stock of the Bank; or (ii) the sale of 50% or more of the

collective assets of the Bank. For purposes of this Section 10(d), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Bank. Change in Control shall be construed consistent with its meaning under Section 409A of the Code.

(e) “Code” means the Internal Revenue Code of 1986, as amended, and all applicable rules and regulations promulgated thereunder.

(f) “Continuous Service” shall mean continuous employment by the Executive with the Bank or any affiliates as a common law employee and/or continuous service by the Executive as a member of the Board of Directors.

(g) “Discount Rate” shall mean the interest rate designated by the Board of Directors for determining the present value of any benefits payable under this Agreement and/or the amount of the installment payments necessary to fully amortize the Accrual Balance at the designated Discount Rate over the specified payment period. The Board of Directors has the authority to designate and/or adjust the Discount Rate, in its sole discretion, so as to maintain the rate within reasonable standards according to GAAP and applicable bank regulatory guidance.

(h) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and all applicable rules and regulations promulgated thereunder,

(i) “Normal Retirement Age” means the attainment of age seventy-six (76) by the Executive.

(j) “Normal Retirement Benefit” means one hundred thousand dollars (\$100,000).

(k) “Permanently Disabled” shall mean any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months that results in Executive (i) being unable to engage in any substantial gainful activity; or (ii) receiving income replacement benefits for a period of not less than three (3) months under the Bank’s long-term disability plan covering Executive. The determination of whether Executive is Permanently Disabled shall be made by the Bank and shall be construed consistent with its meaning under Section 409A of the Code. If the Executive becomes Permanently Disabled, the Executive will be deemed to and shall resign from the Bank contemporaneously with the Executive becoming Permanently Disabled.

(l) “Separation from Service” shall mean (i) a termination of the Executive’s employment where either (A) the Executive has ceased to perform any services for the Bank and all affiliated companies that, together with the Bank, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder (collectively, the “Service Recipient”) or (B) the level of bona fide services the Executive performs for the Service Recipient after a given date (whether as an employee or as an independent contractor) permanently decreases (excluding either a decrease as a result of military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six (6) months, or if longer, so long as the Executive retains a right to reemployment with the Service Recipient under an applicable statute or by contract or any other decrease permitted under Code Section 409A) to no more than twenty percent (20%) of the average level of bona fide services performed for the Service Recipient (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of service if the Executive has been providing services to the Service Recipient for less than 36 months), and (ii) a termination of the Executive’s service at the Bank, in

each case, consistent with a “separation from service” within the meaning of Code Section 409A. Given the Executive is to be provided retirement benefits under the Agreement in return for his services as an employee of the Bank, the Executive will need to separate from service as an employee to be treated as having a Separation from Service for purposes of this Agreement. All references to termination or discharge of employment and/or service shall be deemed to refer to a “separation from service.”

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

SHORE UNITED BANK:

By: _____

Name: _____

Title: _____

EXECUTIVE :

/s/ Edward C. Allen _____

Edward C. Allen

**DESIGNATION OF BENEFICIARY FORM
UNDER
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

Pursuant to Section 10(b) of the SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (the “ Agreement ”), I, Edward Allen, hereby designate the beneficiary(ies) listed below to receive any benefits under the Agreement that may be due following my death. This designation shall replace and revoke any prior designation of beneficiary(ies) made by me under the Agreement.

Full Name(s), Address(es) and Social Security Number(s) of **Primary Beneficiary(ies)** *:

*If more than one beneficiary is named above, the beneficiaries will share equally in any benefits, unless you have otherwise provided above. Further, if you have named more than one beneficiary and one or more of the beneficiaries is deceased at the time of your death, any remaining beneficiary(ies) will share equally, unless you have provided otherwise above. If no primary beneficiary survives you, then the contingent beneficiary designated below will receive any benefits due upon your death. In the event you have no designated beneficiary upon your death, any benefits due will be paid to your legally-married spouse, if any, or, if there is no legally-married surviving spouse, to your estate. In the event that you are naming a beneficiary that is not a person, please provide pertinent information regarding the designation.

Full Name, Address and Social Security Number of **Contingent Beneficiary** :

Date _____

Edward C. Allen

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

This **SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN** (this “Agreement”) is made and entered into this 19th day of July, 2019 (the “Effective Date”), by and among **SHORE UNITED BANK**, a Maryland bank (the “Bank”), and Donna Stevens (the “Executive”). Capitalized terms used herein are defined in Section 10 of this Agreement.

BACKGROUND

To incentivize the Executive to devote his full business time, attention, and energies to the business of the Bank, the Bank and the Executive desire to enter into this Agreement to establish the terms and conditions of the nonqualified supplemental executive retirement plan to be maintained by the Bank on the Executive’s behalf.

AGREEMENT

In consideration of the mutual promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound hereby, the parties hereby agree as follows:

1. General Terms and Conditions. The Bank hereby establishes a nonqualified supplemental executive retirement plan for the benefit of the Executive. Section 2 below describes the benefits available to the Executive, or the Executive’s Beneficiary, upon the occurrence of certain events as described in, and subject to the terms and conditions of, this Agreement; provided the Executive remains in the Continuous Service of the Bank from the Effective Date until the specified event. Each benefit described in Section 2 is in lieu of any other benefit therein. No benefits under this Agreement shall be payable with respect to any event other than the events described below, and the benefits otherwise payable pursuant to Section 2 below are subject to the further limitations in Section 2(f) and (g).

2. Retirement Benefits.

(a) Termination on or after Normal Retirement Age. If Executive remains in the Continuous Service of the Bank until on or after attaining Normal Retirement Age, then following the date on which the Executive experiences a Separation from Service on or after Normal Retirement Age (the “Normal Retirement Date”) for any reason other than (i) discharge of the Executive by the Bank for Cause, (ii) because the Executive dies or becomes Permanently Disabled or (iii) on or within twelve (12) months following the effective date of a Change in Control, the Bank shall pay to the Executive the Normal Retirement Benefit each year for ten (10) years. Payment of the Normal Retirement Benefit shall commence upon the Executive’s Normal Retirement Date, beginning with the month immediately following the Executive’s Normal Retirement Date, and be paid in twelve (12) equal monthly installments (without interest) on the first day of each month thereafter until paid in full.

(b) Termination Prior to Normal Retirement Age. If the Executive experiences a Separation from Service prior to attaining Normal Retirement Age for any reason other than (i) discharge of the Executive by the Bank for Cause, (ii) because the Executive dies or becomes Permanently Disabled or (iii) on or within twelve (12) months following the effective date of a Change in Control, then the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days after the Executive’s Separation from Service an amount equal to the Accrual

Balance as of the date of Executive's Separation from Service.

(c) Termination in Connection with a Change in Control. If before, on or after Normal Retirement Age, the Executive experiences a Separation from Service on or within the twelve (12) months following the effective date of a Change in Control for any reason other than (i) discharge of the Executive by the Bank for Cause or (ii) because the Executive dies or becomes Permanently Disabled, then the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days after the Executive's Separation from Service an amount equal to the present value of the Participant's Normal Retirement Benefit discounted using the current discount rate being utilized to calculate GAAP liabilities and assuming payments commence immediately.

(d) Disability. If Executive becomes Permanently Disabled while in the Continuous Service of the Bank and before any event described in Subsections (a), (b) or (c) above, the Bank shall pay to the Executive in a single lump sum on or within thirty (30) days following the date on which the Executive becomes Permanently Disabled an amount equal to the Accrual Balance as of the date Executive becomes Permanently Disabled.

(e) Death. If the Executive dies while in the Continuous Service of the Bank and before the occurrence of any event triggering the Executive's entitlement to a benefit under this Section 2, then no benefits shall be paid under this Agreement. If Executive dies after the occurrence of any event triggering the Executive's entitlement to a benefit under this Section 2 and prior to payment of the entire Accrual Balance, the Executive's Beneficiary shall receive in a single lump sum on or within thirty (30) days after the Executive's death an amount equal to the remaining Accrual Balance at the time of Executive's death.

(f) Forfeiture of Benefits: Regulatory Limitations. Notwithstanding any other provision of this Agreement, if (i) the Bank discharges the Executive for Cause, or grounds exist for the Bank to discharge the Executive for Cause, regardless of whether an event triggering an entitlement to a benefit under Subsection (a) through (e) has occurred, no benefits shall be paid under this Agreement and any previously paid amounts shall be repaid to Bank by Executive upon five (5) days' notice. The obligations of the Bank under this Agreement are further subject to its adherence to applicable state and federal banking regulations, rules, or statutes.

(g) Temporary Suspension Applicable to a Specified Employee. Notwithstanding the foregoing provisions of this Section 2, if Executive is a "specified employee," within the meaning of Code Section 409A, as of the date of Executive's Separation from Service with the Bank other than by reason of death, payment of benefit amounts otherwise due shall be delayed to the extent necessary under Code Section 409A until the earlier of six (6) months after Separation from Service or the date of Executive's death, as applicable. Any payments that are so delayed shall be paid in a single lump sum in cash in the seventh month following Executive's Separation from Service, or within thirty (30) days after the Executive's death, if earlier.

3. Amendment; Termination. This Agreement may be amended or terminated only by a written agreement signed by the Bank and the Executive. The Bank may unilaterally amend the Agreement to conform with written directives to the Bank to comply with legislative changes or tax law, including, without limitation, Code Section 409A and any and all Treasury regulations and guidance promulgated thereunder. No amendment shall provide for or otherwise permit any acceleration of the time or schedule of any payment under the Agreement in a manner that would be prohibited under Code Section 409A. No waiver of any provision contained in this Agreement shall be effective unless it is in writing and signed by the party against whom such waiver is asserted. Notwithstanding the preceding provisions of this Section 3, the Bank may elect to terminate the Agreement under any circumstances permitted by Treasury

Regulations Section 1.409A-3(j)(4)(ix). In any such event, the Bank shall distribute to the Executive the Accrual Balance in a single lump sum at the earliest date permitted under such Treasury Regulations. The amount of the benefit (but not the timing of payment) shall be determined as if the effective date of the termination of the Agreement constituted an involuntary discharge by the Bank other than for Cause on or within twelve (12) months following a Change in Control.

4. ERISA Provisions.

(a) Plan Administrator Duties. This Agreement shall be administered by the Board of Directors of the Bank (the “Board of Directors”), or such committee or person(s) as the Board of Directors shall appoint, except that the Executive may not participate in any such actions and will excuse himself from participating in any such matter involving himself and/or this Agreement. The Board of Directors, (or its delegate(s)) in its capacity as the “administrator” of the Agreement for purposes of ERISA, shall have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Agreement; and (ii) decide or resolve any and all questions including interpretations of this Agreement, as may arise in connection with the Agreement. The decision or action of the Board of Directors (or its delegatee) with respect to any question arising out of or in connection with the administration, interpretation and application of the Agreement and the rules and regulations promulgated hereunder shall be final, conclusive and binding upon all persons having any interest in the Agreement. The “Named Fiduciary” under the Agreement is the Bank.

(b) Claims Procedures.

(i) Notice of Denial.

(1) If Executive or a Beneficiary (a “claimant”) is denied a claim for benefits under this Agreement, the Claims Administrator shall provide to the claimant written notice of the adverse benefit determination (whether such claim is denied in whole or in part) within a reasonable period of time but no later than ninety (90) days after the Claims Administrator receives the claim. However, under special circumstances (to be determined by the Claims Administrator), the Claims Administrator may extend the time for processing the claim to a day no later than one hundred eighty (180) days after the Claims Administrator receives the claim. The claimant shall be notified in writing within the initial 90-day period of the need to extend the time for review, the special circumstances requiring an extension, and the date by which a decision is expected.

(2) With respect to a claim for benefits due to Executive being Permanently Disabled, the Claims Administrator shall provide to the claimant written notice of the adverse benefit determination within a reasonable period of time but no later than forty-five (45) days after the Claims Administrator receives the claim. This 45-day period may be extended up to thirty (30) days if an extension is necessary due to matters beyond the control of the Agreement (to be determined by the Claims Administrator) and the claimant is notified, prior to the expiration of the initial 45-day period, of the circumstances requiring the extension of time and the date by which the Claims Administrator expects to render a decision. If, prior to the end of the first 30-day extension period, the Claims Administrator determines that, due to matters beyond the control of the Agreement (to be determined by the Claims Administrator), a decision cannot be rendered within that extension period, the period for making the determination may be

extended for up to an additional thirty (30) days, provided that the Claims Administrator notifies the claimant, prior to the expiration of the initial 30-day extension period, of the circumstances requiring the extension and the date as of which the Claims Administrator expects to render a decision. In the case of any such extension, the notice of extension shall also specifically explain the standards on which entitlement to a benefit is based, the unresolved issues that prevent a decision on the claim, and the additional information needed to resolve those issues, and the claimant shall have at least forty-five (45) days within which to provide the specified information, if any.

(ii) Contents of Notice of Denial. If a claimant is denied a claim for benefits under this Agreement, the Claims Administrator shall provide to such claimant written notice of the denial. Any such notice of an adverse benefit determination shall be written in a manner calculated to be understood by the claimant (and with respect to a claim for benefits due to Executive being Permanently Disabled, be provided in a culturally and linguistically appropriate manner) and shall set forth:

- (1) the specific reason or reasons for the denial;
- (2) specific references to the pertinent provisions of this Agreement on which the denial is based;
- (3) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary;
- (4) an explanation of this Agreement's claim review procedures, and the time limits applicable to such procedures, including a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following an adverse benefit determination on review;
- (5) in the case of a claim for benefits due to Executive being Permanently Disabled:
 - (A) a discussion of the decision, including an explanation of the basis for disagreeing with or not following: the views presented by the claimant to the Agreement of health care professionals treating the claimant and vocational professionals who evaluated the claimant, the views of medical or vocational experts whose advice was obtained on behalf of the Agreement in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the benefit determination, and a disability determination regarding the claimant presented by the claimant to the Agreement made by the Social Security Administration;
 - (B) if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Agreement to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request in writing;

(C) the specific internal rules, guidelines, protocols, standards or other similar criteria of the Agreement relied upon in making the adverse determination, or, alternatively, a statement that such rules, guidelines, protocols, standards or other similar criteria of the Agreement do not exist; and

(D) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits.

(iii) Right to Review. After receiving written notice of the denial of a claim, a claimant or his representative shall be entitled to:

(1) submit written comments, documents, records, and other information relating to the denied claim to the Claims Administrator or Appeals Fiduciary, as applicable; and

(2) request, free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claim

(3) request a full and fair review of the denial of the claim by written application to the Claims Administrator (or Appeals Fiduciary in the case of a claim for benefits payable due to Executive being Permanently Disabled), which shall include:

(A) a review that takes into account all comments, documents, records, and other information submitted by the claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination; and

(B) in the case of a claim for benefits due to Executive being Permanently Disabled:

i. before issuing an adverse benefit determination on review, providing the claimant, free of charge with any new or additional evidence considered, relied upon, or generated by the Agreement or other person making the benefit determination (or at the direction of the Agreement or such other person) in connection with the claim as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the claimant a reasonable opportunity to respond prior to that date; and

ii. before issuing an adverse benefit determination on review based on a new or additional rationale, providing the claimant, free of charge, with the rationale as soon as possible and sufficiently in advance of the date on which the notice of adverse benefit determination on review is required to be provided to give the claimant a reasonable opportunity to respond prior to that date.

(iv) Application for Review.

(1) If a claimant wishes a review of the decision denying his claim to benefits under this Agreement, other than a claim described in paragraph (2) of this

Section 4(b)(iv), he must submit the written application to the Claims Administrator within sixty (60) days after receiving written notice of the denial.

(2) If the claimant wishes a review of the decision denying his claim to benefits under this Agreement due to Executive being Permanently Disabled, he must submit the written application to the Appeals Fiduciary within one hundred eighty (180) days after receiving written notice of the denial.

(v) Hearing. Upon receiving such written application for review, the Claims Administrator or Appeals Fiduciary, as applicable, may schedule a hearing for purposes of reviewing the claimant's claim, which hearing shall take place not more than thirty (30) days from the date on which the Claims Administrator or Appeals Fiduciary received such written application for review.

(vi) Notice of Hearing. At least ten (10) days prior to the scheduled hearing, the claimant and his representative designated in writing by him, if any, shall receive written notice of the date, time, and place of such scheduled hearing. The claimant or his representative, if any, may request that the hearing be rescheduled, for his convenience, on another reasonable date or at another reasonable time or place.

(vii) Counsel. All claimants requesting a review of the decision denying their claim for benefits may employ counsel for purposes of the hearing.

(viii) Decision on Review. No later than sixty (60) days (forty-five (45) days with respect to a claim for benefits due to Executive being Permanently Disabled) following the receipt of the written application for review, the Claims Administrator or the Appeals Fiduciary, as applicable, shall submit its decision on the review in writing to the claimant involved and to his representative, if any, unless the Claims Administrator or Appeals Fiduciary determines that special circumstances (such as the need to hold a hearing) require an extension of time, to a day no later than one hundred twenty (120) days (ninety (90) days with respect to a claim for benefits due to Executive being Permanently Disabled) after the date of receipt of the written application for review. If the Claims Administrator or Appeals Fiduciary determines that the extension of time is required, the Claims Administrator or Appeals Fiduciary shall furnish to the claimant written notice of the extension before the expiration of the initial sixty (60) day (forty-five (45) days with respect to a claim for benefits due to Executive being Permanently Disabled) period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Claims Administrator or Appeals Fiduciary expects to render its decision on review. In the case of a decision adverse to the claimant, the Claims Administrator or Appeals Fiduciary shall provide to the claimant written notice of the denial. Any such notice of an adverse benefit determination shall be written in a manner calculated to be understood by the claimant (and with respect to a claim for benefits due to Executive being Permanently Disabled, be provided in a culturally and linguistically appropriate manner) and shall include:

- (1) the specific reason or reasons for the adverse benefit determination;
- (2) specific references to the pertinent provisions of this Agreement on which the adverse benefit determination is based;

(3) a statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits;

(4) a statement of the claimant's right to bring a civil action under Section 502(a) of ERISA following the adverse benefit determination on review;

(5) a statement regarding the availability of other voluntary alternative dispute resolution options;

(6) in the case of a claim for benefits due to Executive being Permanently Disabled:

(A) a description of any contractual limitations period that applies to the claimant's right to bring a civil action under Section 502(a) of ERISA, including the calendar date on which the contractual limitations period expires for the claim;

(B) a discussion of the decision, including an explanation of the basis for disagreeing with or not following: the views presented by the claimant to the Agreement of health care professionals treating the claimant and vocational professionals who evaluated the claimant, the views of medical or vocational professionals whose advice was obtained on behalf of the Agreement in connection with a claimant's adverse benefit determination, without regard to whether the advice was relied upon in making the determination, and a disability determination regarding the claimant presented by the claimant to the Agreement made by the Social Security Administration;

(C) if the adverse benefit determination is based on a medical necessity or experimental treatment or similar exclusion or limit, either an explanation of the scientific or clinical judgment for the determination, applying the terms of the Agreement to the claimant's medical circumstances, or a statement that such explanation will be provided free of charge upon request; and

(D) the specific internal rules, guidelines, protocols, standards or other similar criteria of the Agreement relied upon in making the adverse determination, or a statement that such rules, guidelines, protocols, standards or other similar criteria do not exist.

The Claims Administrator has the discretionary authority to determine all interpretative issues arising under this Agreement and the interpretations of the Claims Administrator shall be final and binding upon Executive or any other party claiming benefits under this Agreement.

(ix) Calculating Time Periods. The period of time within which a benefit determination initially or on review is required to be made shall begin at the time a claim or request for review is filed in accordance with the procedures of the Agreement, without regard to whether all the information necessary to make a benefit determination accompanies the filing. In the event that a period of time is extended due to the failure of a claimant to submit information necessary to decide a claim or review, the period for

making the benefit determination shall be tolled from the date on which the notification of the extension is sent to the claimant until the date on which the claimant responds to the request for additional information.

(x) Standards for Culturally and Linguistically Appropriate Notices. With respect to any notices required to be provided in a culturally and linguistically appropriate manner, the Agreement shall provide (i) oral language services in the applicable non-English language (that include answering questions in any applicable non-English language and providing assistance with filing claims in any applicable non-English language), (ii) a statement in the applicable non-English language, prominently displayed on notices, explaining how to access language services and (iii) notices in the applicable non-English language upon request. For this purpose, a non-English language is an applicable non-English language if 10% or more of the population residing in the county for which the notice is sent is literate only in the same non-English language.

(xi) Adjudication of Disability Benefit Claims: Independence and Impartiality. All claims and appeals with respect to benefits due to Executive being Permanently Disabled shall adjudicated in a manner designed to ensure the independence and impartiality of the persons involved in making the decision. Accordingly, decisions regarding hiring, compensation, termination, promotion, or other similar matters with respect to any individual (such as a claims adjudicator or medical or vocational expert) shall not be based upon the likelihood that the individual will support the denial of benefits.

(xii) Exhaustion of Administrative Remedies Available under the Agreement.

(1) In no event will Executive be entitled to challenge the Claims Administrator's decision in court or any other proceeding unless and until these claims procedures are exhausted. The Executive then shall have one hundred eighty (180) days from the date of receipt of the Claims Administrator's decision on appeal in which to file suit regarding a claim for benefits under this Agreement. If suit is not filed within such one hundred eighty (180)-day period, it shall be forever barred.

(2) Notwithstanding the foregoing, in the case of a claim for benefits due to Executive being Permanently Disabled, if the Claims Administrator or Appeals Fiduciary, as applicable, fails to strictly adhere to all the applicable requirements hereunder, the claimant is deemed to have exhausted the administrative remedies available under the Agreement, except as provided in the paragraph below with respect to de minimis violations. If the claimant chooses to pursue remedies under Section 502(a) of ERISA under such circumstances, the claim or appeal is deemed denied on review without the exercise of discretion by an appropriate fiduciary.

The administrative remedies available under the Agreement will not be deemed exhausted based on de minimis violations that do not cause, and are not likely to cause, prejudice or harm to the claimant, provided the Agreement demonstrates that the violation was for good cause or due to matters beyond the control of the Agreement and that the violation occurred in the context of an ongoing, good faith exchange of information between the Agreement and the claimant. A violation shall not be de minimis if it is part of a pattern or practice of violations by the Agreement. The claimant may request a written explanation of the violation from the Agreement, and the Agreement must provide such explanation within ten (10) days, including a specific description of its bases, if any, for asserting that the violation

should not cause the available administrative remedies to be deemed exhausted. If a court rejects the claimant's request for immediate review on the basis that the Agreement met the standards for the de minimis exception the claim shall be considered as refiled on appeal upon the Agreement's receipt of the court's decision. Within a reasonable time after the receipt of the decision, the Agreement shall provide the claimant with notice of the resubmission.

(xiii) Definitions. For purposes of the Agreement's claims procedures, the following words and phrases shall have the respective meanings set forth below:

(1) " Adverse benefit determination " means any of the following: a denial, reduction or termination of, or a failure to provide or make payment (in whole or in part) for, a benefit, including any such denial, reduction, termination, or failure to provide or make payment that is based on a determination of a claimant's eligibility to participate in a plan and with respect to a claim for benefits due to Executive being Permanently Disabled, shall also mean any rescission of disability coverage with respect to a Participant or Beneficiary (whether or not there is an adverse effect on any particular benefit at that time), where rescission means a cancellation or discontinuance of coverage that has retroactive effect, except to the extent it is attributable to a failure to timely pay required premiums or contributions towards the cost of coverage.

(2) " Appeals Fiduciary " means an individual or group of individuals appointed by the Claims Administrator to review appeals of claims for benefits payable due to the Executive being Permanently Disabled made pursuant to this Subsection (b).

(3) " Claims Administrator " means the Board of Directors or such other person designated by the Board of Directors from time to time and named by notice to Executive.

(4) A document, record, or other information shall be considered " relevant " to a claimant's claim if such document, record, or other information (A) was relied upon in making the benefit determination, (B) was submitted, considered, or generated in the course of making the benefit determination, without regard to whether such document, record, or other information was relied upon in making the benefit determination, (C) demonstrates compliance with the administrative processes and safeguards required in making the benefit determination, or (D) in the case of a claim for benefits due to Executive being Permanently Disabled, constitutes a statement of policy or guidance with respect to the Agreement concerning the denied treatment option or benefit for the claimant's diagnosis, without regard to whether such advice or statement was relied upon in making the benefit determination.

(xiv) Person Authorized to Act on Behalf of Claimant. The Claims Administrator may establish reasonable procedures to permit an authorized person to act on behalf of the claimant (and for determining whether a person has been authorized to act on behalf of a claimant).

5. Funding by Bank.

- (a) The benefit obligations of the Bank set forth herein constitute an unfunded

retirement arrangement, the obligations under which shall be reflected on the general ledger of the Bank (the “Retirement Liability”). The general corporate funds of the Bank shall be the sole source of payment of the Retirement Liability. The Bank shall be under no obligation to set aside, earmark or otherwise segregate any funds with which to pay the Retirement Liability. Executive and Executive’s Beneficiary or any successor in interest shall be and shall remain unsecured general creditors of the Bank with respect to the Retirement Liability. Executive and Executive’s Beneficiary shall have no interest in any property of the Bank or any other rights with respect thereto except to the extent of the contractual right to the Retirement Liability represented by the obligations described in Section 2 of this Agreement.

(b) Notwithstanding anything herein to the contrary, the Bank has no obligation whatsoever to set aside assets, either directly or indirectly, in a trust for purposes of paying the Retirement Liability under this Agreement. The Retirement Liability is not a deposit, is not otherwise funded by the Bank and is not insured by the Federal Deposit Insurance Corporation and does not constitute a trust account or any other special obligation of the Bank and does not have priority of payment over any other general obligations of the Bank. If the Bank determines in its sole discretion to set aside assets in a grantor trust for the purpose of paying benefits under this Agreement, the grantor trust shall not be located outside of the United States or subsequently transferred to any trust outside of the United States.

(c) Notwithstanding anything herein to the contrary, the Bank, in its sole discretion, may procure bank-owned life insurance covering the life of the Executive, with respect to which the Bank shall be the beneficiary, to pay the Bank’s obligations and to remain available to satisfy any claims of the Bank’s general creditors, under this Agreement. Executive agrees to fully cooperate with the Bank to enable the Bank to procure such life insurance, including undertaking a physical to the extent needed to procure the policy. Executive and Executive’s Beneficiary, however, shall have no interest in any such policy of the Bank or any other rights with respect to such policy, the proceeds of which will be paid to the Bank. The Bank in its sole discretion will determine whether to procure any such policy and, if the Bank elects to procure such policy, the face amount of such policy.

6. Employment of Executive; Other Agreements. The benefits provided for herein for Executive are supplemental retirement benefits and shall not be deemed to modify, affect or limit any salary or salary increases, bonuses, profit sharing or any other type of compensation of Executive in any manner whatsoever. No provision contained in this Agreement shall in any way affect, restrict or limit any existing employment agreement between the Bank and Executive, nor shall any provision or condition contained in this Agreement create specific employment or other service rights of Executive or limit the right of the Bank to discharge Executive with or without cause or otherwise terminate the Executive’s service at the Bank.

7. Withholding.

(a) The Executive is responsible for payment of all taxes applicable to compensation and benefits paid or provided to the Executive under the Agreement, including federal and state income tax withholding, as applicable. The Bank shall withhold any taxes that, in its reasonable judgment, are required to be withheld, including but not limited to taxes owed under Code Section 409A and regulations thereunder, if any, and all employment taxes due to be paid by the Bank pursuant to Code Section 3121(v) and regulations promulgated thereunder (*i.e.* , Federal Insurance Contributions Act (“FICA”) taxes on the present value of payments hereunder which are no longer subject to vesting). The Bank’s sole liability regarding such taxes is to forward any amounts withheld to the appropriate taxing authority(ies). By participating in the Agreement, the Executive consents to the deduction of all tax withholdings attributable to participation in the Agreement from the benefits due under the Agreement or other payments due to the Executive by the Bank to satisfy the employee-portion of such obligations. If insufficient cash wages are available or, if the

Executive so desires, the Executive may remit payment in cash for the withholding amounts.

(b) Notwithstanding any other provision in the Agreement to the contrary, to the extent permitted by Code Section 409A, payments due under the Agreement may be accelerated to pay, where applicable, the FICA tax imposed under Code Sections 3101, 3121(a), and 3121(v)(2) and any state, local, and foreign tax obligations (the “Tax Obligations”) that may be imposed on amounts deferred pursuant to the Agreement prior to the time such amounts are paid or made available and to pay the income tax at source on wages imposed under Code Section 3401 or the corresponding withholding provisions of applicable state, local, or foreign tax laws as a result of an accelerated payment of the Tax Obligations (the “Income Tax Obligations”). Accelerated payments pursuant to this Section 7(b) shall not exceed the amount of the Tax Obligations and Income Tax Obligations and shall be made as a payment directly to taxing authorities pursuant to the applicable withholding provisions. Any accelerated payments pursuant to this Section 7(b) shall reduce the benefit otherwise payable to the Executive pursuant to the Agreement.

(c) Notwithstanding any other provision in the Agreement to the contrary, the Executive shall be liable for all taxes related to payments under this Agreement, and the Bank shall not be liable to any interested party for any such taxes or if the Agreement fails to be exempt from or to comply with Code Section 409A. Moreover, the Bank and the Executive acknowledge that amounts payable under this Agreement may need to be bifurcated and made subject to different withholdings and reporting, given the benefits to accrue hereunder relate to both the Executive’s employment with the Bank.

8. Arbitration; Jury Trial Waiver.

(a) Except as otherwise expressly provided herein or in any other subsequent written agreement between Executive and the Bank, unless prohibited by law, any controversy or claim between Executive and the Bank, or between the respective successors or assigns of either, or between Executive and any of the Bank’s officers, employees, agents or affiliated entities, arising out of or relating to this Agreement or any representations, negotiations, or discussions leading up to this Agreement or any relationship that results from any of the foregoing, whether based on contract, an alleged tort, breach of warranty, or other legal theory (including claims of fraud, misrepresentation, suppression of material fact, fraud in the inducement, and breach of fiduciary obligation), and whether based on acts or omissions occurring or existing prior to, at the time of, or after the execution of this Agreement and whether asserted as an original or amended claim, counterclaim, cross-claim, or otherwise, shall be settled by binding arbitration; provided, however, that resort to arbitration as provided in this Section 8 may only be had after exhaustion of the claims procedure described in Subsection 4(b) followed by mediation under the Commercial Mediation Rules of the American Arbitration Association. Thereafter, arbitration of any unresolved claim shall be administered by the American Arbitration Association under its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Any dispute regarding whether a particular claim is subject to arbitration will be decided by the arbitrator. Any court of competent jurisdiction may compel arbitration of claims pursuant to this Agreement.

(b) The arbitrator may award to the prevailing party pre-and post-award expenses of the arbitration, including the arbitrator’s fees and travel expenses, administrative fees, out-of-pocket expenses such as copying and telephone, court costs, witness fees, stenographer’s fees, and (if allowed by

applicable law) attorneys' fees. Otherwise, the parties will share equally the arbitrator's fee and travel expenses and administrative fees, and each party will bear its own expenses.

(c) This agreement to arbitrate disputes will survive the payment of all obligations under this Agreement and termination or performance of any transactions contemplated hereby between Executive and the Bank, and will continue in full force and effect unless Executive and the Bank otherwise expressly agree in writing.

(d) By entering into this Agreement, Executive and the Bank agree and acknowledge that:

(i) by agreeing to arbitrate disputes, Executive and the Bank are giving up the right to trial in a court and THE RIGHT TO TRIAL BY JURY of all claims that are subject to arbitration under this Agreement;

(ii) grounds for appeal of the arbitrator's decision are very limited; and

(iii) in some cases the arbitrator may be employed by, or may have worked closely with, a business in the same or a related type of business as the business engaged in by Executive or the Bank.

(e) EXECUTIVE AND THE BANK HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ALL DISPUTES, CONTROVERSIES AND CLAIMS BY, BETWEEN OR AGAINST EXECUTIVE OR THE BANK, WHETHER THE DISPUTE, CONTROVERSY OR CLAIM IS SUBMITTED TO ARBITRATION OR IS DECIDED BY A COURT.

Executive must initial here: _____

9. Miscellaneous Provisions.

(a) Counterparts. This Agreement may be executed simultaneously in any number of counterparts. Each counterpart shall be deemed to be an original, and all such counterparts shall constitute one and the same instrument. This Agreement may be executed and delivered by facsimile transmission of an executed counterpart.

(b) Construction. As used in this Agreement, the neuter gender shall include the masculine and the feminine, the masculine and feminine genders shall be interchangeable among themselves and each with the neuter, the singular numbers shall include the plural, and the plural the singular. The term "person" shall include all persons and entities of every nature whatsoever, including, but not limited to, individuals, corporations, partnerships, governmental entities and associations. The terms "including," "included," "such as" and terms of similar import shall not imply the exclusion of other items not specifically enumerated.

(c) Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be held to be invalid, illegal, unenforceable or inconsistent with any present or future law, ruling, rule or regulation of any court, governmental or regulatory authority having jurisdiction over the subject matter of this Agreement, such provision shall be rescinded or modified in accordance with such law, ruling, rule or regulation and the remainder of this Agreement or the application of such provision to the person or circumstances other than those as to which it is held inconsistent shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

(d) Governing Law. This Agreement is made in the State of Maryland and shall be governed in all respects and construed in accordance with the laws of the State of Maryland, without regard to its conflicts of law principles, except to the extent superseded by the Federal laws of the United States.

(e) Binding Effect. This Agreement is binding upon the parties, their respective successors, assigns, heirs and legal representatives. Without limiting the foregoing this Agreement shall be binding upon any successor of the Bank whether by merger or acquisition of all or substantially all of the assets or liabilities of the Bank. This Agreement may not be assigned by any party without the prior written consent of each other party hereto.

(f) No Trust. Nothing contained in this Agreement and no action taken pursuant to the provisions of this Agreement shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Bank and Executive, Executive's Beneficiary or any other person.

(g) Assignment of Rights and Benefits. No right or benefit provided in this Agreement will be transferable by Executive except, upon his death, to a named Beneficiary as provided in this Agreement. No right or benefit provided for in the Agreement will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit provided for in the Agreement will in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits; provided, however, that the undistributed portion of any benefit payable hereunder shall at all times be subject to set-off for debts owed by Executive to the Bank.

(h) Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and all prior or contemporaneous negotiations, agreements and understandings, whether oral or written, are hereby superseded, merged and integrated into this Agreement.

(i) Notices. All notices and other communications required or permitted under this Agreement shall be in writing and, if mailed by prepaid first-class mail or certified mail, return receipt requested, shall be deemed to have been received on the earlier of the date shown on the receipt or three (3) business days after the postmarked date thereof. In addition, notices hereunder may be delivered by hand, facsimile transmission or overnight courier, in which event the notice shall be deemed effective when delivered or transmitted. All notices and other communications under this Agreement shall be given to the parties hereto, at the following addresses:

Bank:

Shore United Bank
18 East Dover Street
Easton, MD 21601
Attention: CHRO

Executive: Address on file with Bank

(j) Non-waiver. No delay or failure by either party to exercise any right under this Agreement, and no partial or single exercise of that right, shall constitute a waiver of that or any other right.

(k) Headings. Headings in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

(l) Accelerated Payouts in the Event of 409A Violations. Notwithstanding any other provision of the Agreement to the contrary, the Bank shall make payments hereunder before such payments are otherwise due if it determines that the provisions of the Agreement fail to meet the requirements of Code Section 409A and the rules and regulations promulgated thereunder; provided, however, that such payment(s) may not exceed the amount required to be included in income as a result of such failure to comply with the requirements of Code Section 409A and the rules and regulations promulgated thereunder and, to the extent permissible therein, any taxes, penalties, interest and costs attributable thereto.

10. Definitions. Where the following words and phrases appear in the Agreement, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(a) “Accrual Balance” means the liability that the Bank accrues, under Generally Accepted Accounting Principles (“GAAP”) as reasonably applied by the Bank, for the Bank’s obligation to the Executive under this Agreement in accordance with Accounting Principles Board Opinion Number 12, as amended by Statement of Financial Accounting Standards Number 106, and the Discount Rate. Any one of a variety of amortization methods may be used to determine the Accrual Balance. However, once chosen, the method must be consistently applied.

(b) “Beneficiary” shall mean the person(s) designated by the Executive to receive any death benefits described under Section 2(e) of the Agreement. The Executive shall designate his Beneficiary in writing to the Bank pursuant to procedures as may be established from time to time; provided, however, if no such designation has been made or if the Beneficiary predeceases Executive, the Beneficiary of Executive under this Agreement shall be Executive’s legally-married spouse, if any, or, if there is no legally-married surviving spouse, the Beneficiary shall be Executive’s estate.

(c) “Cause” shall have the same meaning given to the same or similar term in any employment agreement between the parties as may be in effect from time to time; provided, however, if there is no such term or similar term in the employment agreement or if there is no such employment agreement, then the term shall mean (i) intentional misconduct or gross malfeasance, or an act or acts of gross negligence in the course of employment or any material breach of the Executive’s obligations contained herein, including, without limitation, acts competitive with or deliberately harmful to the business of the Bank; (ii) any intentional misstatement or omission to the directors or executive officers of the Bank with respect to any matter; (iii) the intentional failure of the Executive to follow the reasonable instructions and policies of the Bank; (iv) the Executive’s conviction, admission or confession of any felony or an unlawful act involving active and willful fraud or moral turpitude; or (v) the violation by the Executive of applicable state and federal banking regulations, rules, or statutes. If there is a discharge of the Executive by the Bank for Cause, the Executive will be deemed to and shall resign from the Bank contemporaneously with the termination of the Executive’s employment.

(d) “Change in Control” shall mean (i) any transaction, whether by merger, consolidation, asset sale, recapitalization, reorganization, combination, stock purchase, tender offer, reverse stock split, or otherwise, which results in the acquisition of, or beneficial ownership (as such term is defined under rules and regulations promulgated under the Securities Exchange Act of 1934, as amended) by any entity, person or any group thereof acting in concert, of 50% or more of the outstanding shares of common stock of the Bank; or (ii) the sale of 50% or more of the

collective assets of the Bank. For purposes of this Section 10(d), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Bank. Change in Control shall be construed consistent with its meaning under Section 409A of the Code.

(e) “Code” means the Internal Revenue Code of 1986, as amended, and all applicable rules and regulations promulgated thereunder.

(f) “Continuous Service” shall mean continuous employment by the Executive with the Bank or any affiliates as a common law employee and/or continuous service by the Executive as a member of the Board of Directors.

(g) “Discount Rate” shall mean the interest rate designated by the Board of Directors for determining the present value of any benefits payable under this Agreement and/or the amount of the installment payments necessary to fully amortize the Accrual Balance at the designated Discount Rate over the specified payment period. The Board of Directors has the authority to designate and/or adjust the Discount Rate, in its sole discretion, so as to maintain the rate within reasonable standards according to GAAP and applicable bank regulatory guidance.

(h) “ERISA” means the Employee Retirement Income Security Act of 1974, as amended, and all applicable rules and regulations promulgated thereunder,

(i) “Normal Retirement Age” means the attainment of age sixty five (65) by the Executive.

(j) “Normal Retirement Benefit” means one hundred thousand dollars (\$100,000).

(k) “Permanently Disabled” shall mean any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months that results in Executive (i) being unable to engage in any substantial gainful activity; or (ii) receiving income replacement benefits for a period of not less than three (3) months under the Bank’s long-term disability plan covering Executive. The determination of whether Executive is Permanently Disabled shall be made by the Bank and shall be construed consistent with its meaning under Section 409A of the Code. If the Executive becomes Permanently Disabled, the Executive will be deemed to and shall resign from the Bank contemporaneously with the Executive becoming Permanently Disabled.

(l) “Separation from Service” shall mean (i) a termination of the Executive’s employment where either (A) the Executive has ceased to perform any services for the Bank and all affiliated companies that, together with the Bank, constitute the “service recipient” within the meaning of Code Section 409A and the regulations thereunder (collectively, the “Service Recipient”) or (B) the level of bona fide services the Executive performs for the Service Recipient after a given date (whether as an employee or as an independent contractor) permanently decreases (excluding either a decrease as a result of military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six (6) months, or if longer, so long as the Executive retains a right to reemployment with the Service Recipient under an applicable statute or by contract or any other decrease permitted under Code Section 409A) to no more than twenty percent (20%) of the average level of bona fide services performed for the Service Recipient (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of service if the Executive has been providing services to the Service Recipient for less than 36 months), and (ii) a termination of the Executive’s service at the Bank, in

each case, consistent with a “separation from service” within the meaning of Code Section 409A. Given the Executive is to be provided retirement benefits under the Agreement in return for his services as an employee of the Bank, the Executive will need to separate from service as an employee to be treated as having a Separation from Service for purposes of this Agreement. All references to termination or discharge of employment and/or service shall be deemed to refer to a “separation from service.”

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first set forth above.

SHORE UNITED BANK:

By: _____

Name: _____

Title: _____

EXECUTIVE :

/s/ Donna J. Stevens _____

Donna J. Stevens

**DESIGNATION OF BENEFICIARY FORM
UNDER
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN**

Pursuant to Section 10(b) of the SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN (the “ Agreement ”), I, Donna Stevens, hereby designate the beneficiary(ies) listed below to receive any benefits under the Agreement that may be due following my death. This designation shall replace and revoke any prior designation of beneficiary(ies) made by me under the Agreement.

Full Name(s), Address(es) and Social Security Number(s) of **Primary Beneficiary(ies)** *:

*If more than one beneficiary is named above, the beneficiaries will share equally in any benefits, unless you have otherwise provided above. Further, if you have named more than one beneficiary and one or more of the beneficiaries is deceased at the time of your death, any remaining beneficiary(ies) will share equally, unless you have provided otherwise above. If no primary beneficiary survives you, then the contingent beneficiary designated below will receive any benefits due upon your death. In the event you have no designated beneficiary upon your death, any benefits due will be paid to your legally-married spouse, if any, or, if there is no legally-married surviving spouse, to your estate. In the event that you are naming a beneficiary that is not a person, please provide pertinent information regarding the designation.

Full Name, Address and Social Security Number of **Contingent Beneficiary** :

Date _____

Donna J. Stevens

**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., certify that:

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

Date: August 9, 2019

By: /s/ Lloyd L. Beatty, Jr.

Lloyd L. Beatty, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

**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, Edward C. Allen, certify that:

1. I have reviewed this report on Form 10-Q of Shore Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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.

Date: August 9, 2019

By: /s/ Edward C. Allen

Edward C. Allen
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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 Quarter Report of Shore Bancshares, Inc. on Form 10-Q for the Quarter ended June 30, 2019 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: August 9, 2019

/s/ Lloyd L. Beatty, Jr.

Lloyd L. Beatty, Jr.
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 9, 2019

/s/ Edward C. Allen

Edward C. Allen
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)
