

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, 2024

OR

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

For the transition period from _____ to _____

Commission File Number: 0-22345



SHORE BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or Other Jurisdiction of Incorporation or Organization)

52-1974638

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

18 E. Dover Street, Easton, Maryland

(Address of Principal Executive Offices)

21601

(Zip Code)

(410) 763-7800

Registrant's Telephone Number, Including Area Code

Not applicable

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

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

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

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

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

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

Large accelerated filer	☐	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 ☒

The number of shares outstanding of the registrant's common stock as of August 2, 2024 was 33,316,252.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

SHORE BANCSHARES, INC. CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2024	December 31, 2023
	(Unaudited)	
ASSETS		
Cash and due from banks	\$ 50,090	\$ 63,172
Interest-bearing deposits with other banks	88,793	309,241
Cash and cash equivalents	138,883	372,413
Investment securities:		
Available-for-sale, at fair value (amortized cost of \$142,959 (2024) and \$120,832 (2023))	131,594	110,521
Held to maturity, net of allowance for credit losses of \$108 (2024) and \$94 (2023) (fair value of \$440,164 (2024) and \$457,830 (2023))	499,431	513,188
Equity securities, at fair value	5,699	5,703
Restricted securities, at cost	21,725	17,900
Loans held for sale, at fair value	27,829	8,782
Loans held for investment (\$9,515 (2024) and \$9,944 (2023), at fair value)	4,705,737	4,641,010
Less: allowance for credit losses	(58,478)	(57,351)
Loans, net	4,647,259	4,583,659
Premises and equipment, net	82,176	82,386
Goodwill	63,266	63,266
Other intangible assets, net	42,945	48,090
Other real estate owned, net	179	179
Reposessed properties	1,560	—
Assets held for sale	1,387	—
Mortgage servicing rights, at fair value	5,995	5,926
Right-of-use assets	11,762	12,487
Cash surrender value on life insurance	102,969	101,704
Accrued interest receivable	19,641	19,217
Deferred income taxes	36,078	40,707
Other assets	23,639	24,790
TOTAL ASSETS	\$ 5,864,017	\$ 6,010,918
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 1,587,252	\$ 1,258,037
Interest-bearing	3,561,633	4,128,083
Total deposits	5,148,885	5,386,120
Advances from FHLB - short-term	31,000	—
Advances from FHLB - long-term	50,000	—
Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS"), net	29,316	29,158
Subordinated debt, net	43,504	43,139
Total borrowings	153,820	72,297
Lease liabilities	12,189	12,857
Other liabilities	26,340	28,509
TOTAL LIABILITIES	5,341,234	5,499,783
STOCKHOLDERS' EQUITY		
Common stock, par value \$.01 per share; shares authorized - 50,000,000; shares issued and outstanding - 33,214,522 (2024) and 33,161,532 (2023)	333	332
Additional paid in capital	356,994	356,007
Retained earnings	173,716	162,290
Accumulated other comprehensive loss	(8,260)	(7,494)
TOTAL STOCKHOLDERS' EQUITY	522,783	511,135
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,864,017	\$ 6,010,918

See accompanying notes to Consolidated Financial Statements.

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

(In thousands, except per share data)	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2024	2023	2024	2023
INTEREST INCOME				
Interest and fees on loans	\$ 67,292	\$ 32,729	\$ 133,045	\$ 63,557
Interest and dividends on taxable investment securities	5,230	3,729	9,650	7,793
Interest and dividends on tax-exempt investment securities	6	5	12	12
Interest on deposits with other banks	578	170	1,538	333
Total interest income	73,106	36,633	144,245	71,695
INTEREST EXPENSE				
Interest on deposits	27,585	9,914	56,081	17,195
Interest on short-term borrowings	1,584	3,449	1,641	4,810
Interest on long-term borrowings	1,797	776	3,248	1,532
Total interest expense	30,966	14,139	60,970	23,537
NET INTEREST INCOME	42,140	22,494	83,275	48,158
Provision for credit losses	2,081	667	2,488	1,880
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	40,059	21,827	80,787	46,278
NONINTEREST INCOME				
Service charges on deposit accounts	1,493	1,264	3,001	2,477
Trust and investment fee income	896	399	1,630	831
Interchange credits	1,717	1,311	3,304	2,523
Mortgage-banking revenue	1,983	1,054	2,783	2,031
Title Company revenue	165	186	243	323
Other noninterest income	2,186	1,080	4,046	2,443
Total noninterest income	8,440	5,294	15,007	10,628
NONINTEREST EXPENSE				
Salaries and wages	13,307	8,955	25,158	17,639
Employee benefits	3,593	2,440	7,689	5,361
Occupancy expense	2,432	1,599	4,848	3,218
Furniture and equipment expense	900	477	1,804	1,011
Data processing	2,978	1,739	5,845	3,537
Directors' fees	359	185	654	435
Amortization of other intangible assets	2,569	435	5,145	876
FDIC insurance premium expense	1,089	758	2,240	1,129
Other real estate owned expenses, net	—	—	—	(1)
Legal and professional fees	1,354	959	2,954	1,709
Fraud losses ⁽¹⁾	62	47	4,564	114
Merger-related expenses	—	1,197	—	1,888
Other noninterest expenses	4,856	2,817	9,296	5,585
Total noninterest expense	33,499	21,608	70,197	42,501
Income before income taxes	15,000	5,513	25,597	14,405
Income tax expense	3,766	1,495	6,179	3,930
NET INCOME	\$ 11,234	\$ 4,018	\$ 19,418	\$ 10,475
Basic and diluted net income per common share				
	\$ 0.34	\$ 0.20	\$ 0.58	\$ 0.53
Dividends paid per common share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24

(1) Fraud losses includes \$4.3 million of credit card fraud losses for the six months ended June 30, 2024.

See accompanying notes to Consolidated Financial Statements.

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

(In thousands)	For Three Months Ended June 30,		For Six Months Ended June 30,	
	2024	2023	2024	2023
Net income	<u>\$ 11,234</u>	<u>\$ 4,018</u>	<u>\$ 19,418</u>	<u>\$ 10,475</u>
Other comprehensive income (loss):				
Investment securities:				
Unrealized holding gains (losses) on available-for-sale-securities	(278)	(549)	(1,054)	634
Tax effect	76	149	288	(174)
Total other comprehensive income (loss)	(202)	(400)	(766)	460
Comprehensive income	<u>\$ 11,032</u>	<u>\$ 3,618</u>	<u>\$ 18,652</u>	<u>\$ 10,935</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, 2024 and 2023

(In thousands)	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balances, January 1, 2024	\$ 332	\$ 356,007	\$ 162,290	\$ (7,494)	\$ 511,135
Net income	—	—	8,184	—	8,184
Other comprehensive loss	—	—	—	(564)	(564)
Common shares issued for employee stock purchase plan	—	103	—	—	103
Stock-based compensation	—	354	—	—	354
Cash dividends declared	—	—	(3,984)	—	(3,984)
Balances, March 31, 2024	\$ 332	\$ 356,464	\$ 166,490	\$ (8,058)	\$ 515,228
Net income	—	—	11,234	—	11,234
Other comprehensive loss	—	—	—	(202)	(202)
Common shares issued for employee stock purchase plan	1	120	—	—	121
Stock-based compensation	—	410	—	—	410
Cash dividends declared	—	—	(4,008)	—	(4,008)
Balances, June 30, 2024	\$ 333	\$ 356,994	\$ 173,716	\$ (8,260)	\$ 522,783

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

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

See accompanying notes to Consolidated Financial Statements.

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

(In thousands)	For Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 19,418	\$ 10,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Net accretion of acquisition accounting estimates	(7,618)	(847)
Provision for credit losses	2,488	1,880
Depreciation and amortization	8,217	2,744
Net amortization of securities	(643)	660
Amortization of debt issuance costs	60	61
Gain on mortgage banking activities	(2,446)	(1,518)
Proceeds from sale of mortgage loans held for sale	64,563	47,815
Originations of loans held for sale	(81,712)	(49,191)
Stock-based compensation expense	764	325
Deferred income tax expense (benefit)	4,916	(743)
Loss on sales of repossessed assets	45	—
Loss on valuation adjustments on mortgage servicing rights	129	40
Valuation adjustments on premises transferred to held for sale	2	271
Gain on sales and valuation adjustments on other real estate owned	—	(3)
Fair value adjustments on loans held for investments, at fair value	318	(48)
Fair value adjustment on equity securities	84	3
Bank owned life insurance income	(1,344)	(758)
Net changes in:		
Accrued interest receivable	(424)	731
Other assets	1,241	(2,510)
Accrued interest payable	(630)	1,721
Other liabilities	(2,010)	(458)
Net cash provided by operating activities	5,418	10,650
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and principal payments of investment securities available for sale	60,673	6,019
Proceeds from maturities and principal payments of investment securities held to maturity	19,291	21,795
Proceeds from life insurance death benefits	150	—
Purchases of investment securities available for sale	(81,904)	—
Purchases of investment securities held to maturity	(5,800)	—
Purchases of equity securities	(80)	(15)
Purchase of restricted securities	(22,186)	(23,979)
Net change in loans	(59,472)	(196,213)
Purchases of premises and equipment	(3,359)	(1,768)
Proceeds from sales of other real estate owned	—	21
Proceeds from sales of repossessed assets	240	—
Redemption of restricted securities	18,361	13,940
Purchases of bank owned life insurance	(71)	(174)
Proceeds from disposal of premises held for sale	—	721
Net cash (used in) investing activities	\$ (74,157)	\$ (179,653)

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

(In thousands)	For Six Months Ended June 30,	
	2024	2023
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net changes in:		
Noninterest-bearing deposits	\$ 329,215	\$ (83,052)
Interest-bearing deposits	(567,238)	10,970
Short-term borrowings	31,000	236,000
Long-term borrowings	50,000	—
Common stock dividends paid	(7,992)	(4,776)
Issuance of common stock	224	189
Net cash (used in) provided by financing activities	(164,791)	159,331
Net decrease in cash and cash equivalents	(233,530)	(9,672)
Cash and cash equivalents at beginning of period	372,413	55,499
Cash and cash equivalents at end of period	\$ 138,883	\$ 45,827
Supplemental cash flows information:		
Interest paid	\$ 60,289	\$ 21,836
Income taxes paid	\$ —	\$ 6,372
Recognition (remeasurement of) lease liabilities arising from right-of-use assets	\$ 76	\$ (5)
Transfers from loans to repossessed properties	\$ 1,845	\$ —
Unrealized (losses) gains on securities available for sale	\$ (1,054)	\$ 634
Transfer of premises to held for sale (included in other assets)	\$ 1,387	\$ 750

See accompanying notes to Consolidated Financial Statements.

Shore Bancshares, Inc.
Notes to Consolidated Financial Statements
For the Three and Six Months Ended June 30, 2024 and 2023
(Unaudited)

Note 1 – Basis of Presentation

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

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

Recent Accounting Pronouncements

ASU Update 2023-09 – In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

ASU Update 2023-07 – In November 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.” The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker (CODM), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in an entity’s consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoptions permitted. The amendments should be applied retrospectively. The Company does not expect the adoption of ASU 2023-07 to have a material impact on its consolidated financial statements.

Note 2 – Business Combinations

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

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

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

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(Dollars in thousands)

Purchase Price Consideration:		
Fair value of common shares issued (13,201,693 shares) based on Shore Bancshares, Inc. share price of \$11.56	\$	152,612
Effective settlement of pre-existing debt ⁽¹⁾		500
Cash consideration (cash in lieu for fractional shares)		5
Fair value of converted restricted stock units ⁽²⁾		475
Total purchase price	\$	153,592
Identifiable assets:		
Cash and cash equivalents	\$	25,377
Total securities		454,468
Loans, net		1,765,255
Premises and equipment, net		29,277
Core deposit intangible, net		48,648
Other assets		89,808
Total identifiable assets	\$	2,412,833
Identifiable Liabilities		
Deposits	\$	2,131,141
Total debt		97,545
Other liabilities		21,739
Total identifiable liabilities	\$	2,250,425
Provisional fair value of net assets acquired	\$	162,408
Provisional bargain purchase gain	\$	(8,816)

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

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

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

The Company recorded all loans acquired at the estimated fair value on the Acquisition Date with no carryover of the related allowance for credit losses. The Company determined the net discounted value of cash flows on gross loans totaling \$1.9 billion, including 3,858 of Non-PCD loans and 323 PCD loans. The valuation took into consideration the loans' underlying characteristics, including account types, remaining terms, annual interest rates, interest types, past delinquencies, timing of principal and interest payments, current market rates and remaining balances. Valuations also considered default rates, loss severity estimates, and estimates related to expected prepayments over the contractual lives of the loans. The effect of the valuation process was a total net discount \$120.9 million at the Acquisition Date.

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

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

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

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

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

Note 3 – Investment Securities

On January 1, 2023, the Company adopted ASC 326, which made changes to accounting for AFS debt securities whereby credit losses should be presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell prior to maturity. In addition, ASC 326 requires an ACL to be recorded on HTM debt securities measured at amortized cost. All securities information presented as of June 30, 2024 and as of December 31, 2023 are in accordance with ASC 326, except ACL on HTM securities were presented as of three and six months ended June 30, 2024 and June 30, 2023.

The following table summarizes the activity in the ACL on HTM securities as of three and six months ended June 30, 2024 and June 30, 2023.

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Balance, beginning of period	\$ 116	\$ —	\$ 94	\$ —
Other debt securities, provision for credit losses	(8)	163	14	163
Balance, end of period	\$ 108	\$ 163	\$ 108	\$ 163

A provision for credit losses of \$8,000 and \$0.2 million, \$14,000 and \$0.2 million was recorded for the three and six months ended June 30, 2024 and June 30, 2023, respectively.

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, 2024				
U.S. Treasury and government agencies	\$ 23,213	\$ 4	\$ 3,057	\$ 20,160
Mortgage-backed-residential	113,623	18	8,168	105,473
Other debt securities	6,123	38	200	5,961
Total	\$ 142,959	\$ 60	\$ 11,425	\$ 131,594
December 31, 2023				
U.S. Treasury and government agencies	\$ 23,472	\$ 5	\$ 3,002	\$ 20,475
Mortgage-backed-residential	91,280	5	7,258	84,027
Other debt securities	6,080	59	120	6,019
Total	\$ 120,832	\$ 69	\$ 10,380	\$ 110,521

No AFS securities were sold during the three and six months ended June 30, 2024 and 2023.

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Held-to-maturity securities:					
June 30, 2024					
U.S. Treasury and government agencies	\$ 143,165	\$ 2	\$ 10,805	\$ 132,362	\$ —
Mortgage-backed-residential	344,406	—	47,530	296,876	—
States and political subdivisions	1,468	28	34	1,462	—
Other debt securities	10,500	—	1,036	9,464	108
Total	\$ 499,539	\$ 30	\$ 59,405	\$ 440,164	\$ 108
December 31, 2023					
U.S. Treasury and government agencies	\$ 143,442	\$ —	\$ 10,377	\$ 133,065	\$ —
Mortgage-backed-residential	357,870	—	43,864	314,006	—
States and political subdivisions	1,470	57	19	1,508	—
Other debt securities	10,500	—	1,249	9,251	94
Total	\$ 513,282	\$ 57	\$ 55,509	\$ 457,830	\$ 94

Equity securities with an aggregate fair value of \$5.7 million at June 30, 2024 and \$5.7 million at December 31, 2023 are presented separately on the balance sheet. The fair value adjustment recorded through earnings totaled loss of \$0.2 million for the six months ended June 30, 2024 and loss of \$3,000 for the six months ended June 30, 2023, respectively.

Credit Quality Information

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

The following table shows the amortized cost of HTM securities based on their lowest publicly available credit rating as of June 30, 2024.

(Dollars in thousands)	June 30, 2024						
	Investment Grade						
	Aaa	Aa1	A3	Baa1	Baa2	NR	Total
U.S. Treasury and government agencies	\$ 139,594	\$ —	\$ —	\$ —	\$ —	\$ 3,571	\$ 143,165
Mortgage-backed-residential	344,406	—	—	—	—	—	344,406
States and political subdivisions	—	1,468	—	—	—	—	1,468
Other debt securities	—	—	4,000	4,000	500	2,000	10,500
Total held-to-maturity securities	\$ 484,000	\$ 1,468	\$ 4,000	\$ 4,000	\$ 500	\$ 5,571	\$ 499,539

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

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

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

(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, 2024						
Available-for-sale securities:						
U.S. Treasury and government agencies	\$ 73	\$ —	\$ 17,328	\$ 3,057	\$ 17,401	\$ 3,057
Mortgage-backed-residential	45,976	741	46,788	7,427	92,764	8,168
Other debt securities	2,228	109	1,915	91	4,143	200
Total	\$ 48,277	\$ 850	\$ 66,031	\$ 10,575	\$ 114,308	\$ 11,425

(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, 2023						
Available-for-sale securities:						
U.S. Treasury and government agencies	\$ 74	\$ —	\$ 17,750	\$ 3,002	\$ 17,824	\$ 3,002
Mortgage-backed-residential	24,405	150	52,864	7,108	77,269	7,258
Other debt securities	—	—	1,890	120	1,890	120
Total	\$ 24,479	\$ 150	\$ 72,504	\$ 10,230	\$ 96,983	\$ 10,380

There were 110 AFS debt securities with a fair value below the amortized cost basis, totaling \$11.4 million of aggregate fair value as of June 30, 2024. The Company concluded that a credit loss does not exist in its AFS securities portfolio as of June 30, 2024, and no impairment loss has been recognized based on the fact that (1) changes in fair value were caused primarily by fluctuations in interest rates, (2) securities with unrealized losses had generally high credit quality, (3) the Company intends to hold these investments in debt securities to maturity and it is more-likely-than-not the Company will not be required to sell these investments before a recovery of its investment, and (4) issuers have continued to make timely payments of principal and interest. Additionally, the Company's mortgage-back securities are issued by either U.S. government agencies or U.S. government sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

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

The Company has securities which have been pledged as collateral for obligations to federal, state, and local government agencies, and other purpose as required or permitted by law, or sold under agreements to repurchase. At June 30, 2024, the carrying value of pledged AFS securities was \$53.8 million and \$199.7 million of pledged HTM securities. The comparable amounts for December 31, 2023 were \$54.5 million and \$185.9 million, respectively.

There were no obligations of states or political subdivisions with carrying values, as to any issuer, exceeding 10% of stockholders' equity at June 30, 2024 or December 31, 2023.

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

(Dollars in thousands)	Available for sale		Held to maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 2,477	\$ 2,477	\$ 7,058	\$ 7,032
Due after one year through five years	15,098	14,067	129,280	121,184
Due after five years through ten years	27,511	24,591	37,670	34,457
Due after ten years	97,873	90,459	325,531	277,491
Total	\$ 142,959	\$ 131,594	\$ 499,539	\$ 440,164

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

Note 4 – Loans and Allowance for Credit Losses

On January 1, 2023, the Company adopted ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. For further discussion on the most significant accounting policies that the Company follows see Note 1 – Summary of Significant Accounting Policies of the Company’s 2023 Annual Report.

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

(Dollars in thousands)	June 30, 2024	% of Total Loans	December 31, 2023	% of Total Loans
Construction	\$ 327,875	6.97 %	\$ 299,000	6.40 %
Residential real estate	1,539,591	32.72 %	1,490,438	32.10 %
Commercial real estate	2,287,497	48.60 %	2,286,154	49.30 %
Commercial	218,987	4.65 %	229,939	5.00 %
Consumer	324,479	6.90 %	328,896	7.10 %
Credit Cards	7,308	0.16 %	6,583	0.10 %
Total loans	4,705,737	100.00 %	4,641,010	100.00 %
Allowance for credit losses on loans	(58,478)		(57,351)	
Total loans, net	\$ 4,647,259		\$ 4,583,659	

Loans are stated at their principal amount outstanding net of any purchase premiums/discounts, deferred fees and costs. Included in loans were deferred costs, net of fees, of \$3.2 million and \$2.2 million at June 30, 2024 and December 31, 2023. At June 30, 2024 and December 31, 2023 included in total loans were \$1,558.9 million and \$1,643.4 million in loans acquired as part of the acquisition of TCFC, effective July 1, 2023. These balances were presented net of the related discount which totaled \$96.6 million and \$108.4 million at June 30, 2024 and December 31, 2023, respectively. At June 30, 2024 and December 31, 2023, included in total loans were \$273.5 million and \$297.9 million in loans, acquired as part of the acquisition of Severn Bancorp, Inc. (“Severn”), effective October 31, 2021. These balances were presented net of the related discount which totaled \$4.0 million and \$4.7 million at June 30, 2024 and December 31, 2023, respectively.

At June 30, 2024, the Bank was servicing \$368.0 million in loans for the Federal National Mortgage Association and \$120.1 million in loans for Freddie Mac.

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

(Dollars in thousands)	Non-Accrual with no allowance for credit loss	Non-Accrual with an allowance for credit loss	Total Non-Accrual Loans
June 30, 2024			
Nonaccrual loans:			
Construction	\$ 207	\$ —	\$ 207
Residential real estate	6,650	130	6,780
Commercial real estate	3,562	2,269	5,831
Commercial	313	1,145	1,458
Consumer	254	134	388
Credit Cards	—	173	173
Total	\$ 10,986	\$ 3,851	\$ 14,837
Interest income	\$ 183	\$ 60	\$ 243

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

(Dollars in thousands)	Non-Accrual Delinquent Loans	Non-Accrual Current Loans	Total Non-Accrual Loans
June 30, 2024			
Nonaccrual loans:			
Construction	\$ 207	\$ —	\$ 207
Residential real estate	4,467	2,313	6,780
Residential rentals	—	—	—
Commercial real estate	572	5,259	5,831
Commercial	194	1,264	1,458
Consumer	336	52	388
Credit Cards	—	173	173
Total	<u>\$ 5,776</u>	<u>\$ 9,061</u>	<u>\$ 14,837</u>

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

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

Consumer credit cards are monitored based on a borrower payment history. Credit card loans are classified as performing and are typically charged off no later than 180 days past due when, in the opinion of management, the collection of principal or interest is considered doubtful. As of June 30, 2024, there were 7 credit cards that were evaluated based on economic conditions specific to the loans or borrowers, and were downgraded to substandard and non-performing.

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

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

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

Rating 8 – Substandard - Substandard assets are assets that are inadequately protected by the sound worth or paying capacity of the borrower or of the collateral pledged. Substandard loans are the first adversely classified loans on the Bank's watchlist. These assets have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the possibility that the Bank will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard assets, does not have to exist in individual assets classified substandard. The loans may have a delinquent history or combination of weak collateral, weak guarantor or operating losses. When a loan is assigned to this category the Bank may estimate a specific reserve in the credit loss allowance analysis and/or place the loan on nonaccrual. These assets listed may include assets with histories of repossessions or some that are non-performing bankruptcies. These relationships will be reviewed at least quarterly.

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

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

The following tables provides information on loan risk ratings as of June 30, 2024 and gross write-offs during the six months ended June 30, 2024.

	Term Loans by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
(Dollars in thousands)	Prior	2020	2021	2022	2023	2024			
June 30, 2024									
Construction									
Pass	\$ 36,766	\$ 11,583	\$ 24,701	\$ 81,331	\$ 113,451	\$ 45,465	\$ 13,754	\$ 617	\$ 327,668
Substandard	60	—	—	147	—	—	—	—	207
Total	\$ 36,826	\$ 11,583	\$ 24,701	\$ 81,478	\$ 113,451	\$ 45,465	\$ 13,754	\$ 617	\$ 327,875
Gross Charge-offs	\$ —	\$ —	\$ (12)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (12)
Residential real estate									
Pass	\$ 358,688	\$ 101,940	\$ 245,989	\$ 405,943	\$ 238,422	\$ 51,212	\$ 115,376	\$ 13,202	\$ 1,530,772
Special Mention	398	540	491	—	—	—	173	—	1,602
Substandard	5,016	—	875	301	—	—	1,025	—	7,217
Total	\$ 364,102	\$ 102,480	\$ 247,355	\$ 406,244	\$ 238,422	\$ 51,212	\$ 116,574	\$ 13,202	\$ 1,539,591
Gross Charge-offs	\$ (1)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (1)
Commercial real estate									
Pass	\$ 817,330	\$ 302,884	\$ 411,101	\$ 426,121	\$ 213,809	\$ 54,822	\$ 31,520	\$ —	\$ 2,257,587
Special Mention	11,492	—	6,692	5,044	—	—	531	—	23,759
Substandard	3,005	—	3,116	—	—	—	30	—	6,151
Total	\$ 831,827	\$ 302,884	\$ 420,909	\$ 431,165	\$ 213,809	\$ 54,822	\$ 32,081	\$ —	\$ 2,287,497
Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial									
Pass	\$ 30,525	\$ 12,726	\$ 47,411	\$ 32,624	\$ 30,185	\$ 16,782	\$ 44,803	\$ 469	\$ 215,525
Special Mention	127	—	—	—	—	—	—	62	189
Substandard	359	—	10	1,501	619	—	784	—	3,273
Total	\$ 31,011	\$ 12,726	\$ 47,421	\$ 34,125	\$ 30,804	\$ 16,782	\$ 45,587	\$ 531	\$ 218,987
Gross Charge-offs	\$ (23)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (23)
Consumer									
Pass	\$ 1,129	\$ 12,218	\$ 68,827	\$ 129,051	\$ 76,468	\$ 35,723	\$ 675	\$ —	\$ 324,091
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	13	7	62	236	68	—	2	—	388
Total	\$ 1,142	\$ 12,225	\$ 68,889	\$ 129,287	\$ 76,536	\$ 35,723	\$ 677	\$ —	\$ 324,479
Gross Charge-offs	\$ (381)	\$ (9)	\$ (46)	\$ (918)	\$ (16)	\$ —	\$ (16)	\$ —	\$ (1,386)
Total									
Pass	\$ 1,244,438	\$ 441,351	\$ 798,029	\$ 1,075,070	\$ 672,335	\$ 204,004	\$ 206,128	\$ 14,288	\$ 4,655,643
Special Mention	12,017	540	7,183	5,044	—	—	704	62	25,550
Substandard	8,453	7	4,063	2,185	687	—	1,841	—	17,236
Total loans by risk category	\$ 1,264,908	\$ 441,898	\$ 809,275	\$ 1,082,299	\$ 673,022	\$ 204,004	\$ 208,673	\$ 14,350	\$ 4,698,429
Total gross charge-offs	\$ (405)	\$ (9)	\$ (58)	\$ (918)	\$ (16)	\$ —	\$ (16)	\$ —	\$ (1,422)

	Term Loans by Origination Year						Revolving Loans	Revolving Converted to Term Loans	Total
(Dollars in thousands)	Prior	2020	2021	2022	2023	2024			
June 30, 2024									
Credit Cards									
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,135	\$ —	\$ 7,135
Non-Performing	—	—	—	—	—	—	173	—	173
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,308	\$ —	\$ 7,308
Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (194)	\$ —	\$ (194)
Total loans evaluated by performing status	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 7,308	\$ —	\$ 7,308
Total gross charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (194)	\$ —	\$ (194)
Total Recorded Investment	\$ 1,264,908	\$ 441,898	\$ 809,275	\$ 1,082,299	\$ 673,022	\$ 204,004	\$ 215,981	\$ 14,350	\$ 4,705,737

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

	Term Loans by Origination Year						Revolving loans	Revolving converted to term loans	Total	
(Dollars in thousands)	Prior	2019	2020	2021	2022	2023				
December 31, 2023										
Construction										
Pass	\$ 23,450	\$ 15,721	\$ 14,773	\$ 34,325	\$ 101,426	\$ 100,620	\$ 8,056	\$ —	\$ 298,371	
Substandard	199	—	—	12	418	—	—	—	629	
Total	\$ 23,649	\$ 15,721	\$ 14,773	\$ 34,337	\$ 101,844	\$ 100,620	\$ 8,056	\$ —	\$ 299,000	
Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Residential real estate										
Pass	\$ 317,528	\$ 54,387	\$ 105,269	\$ 251,269	\$ 392,378	\$ 239,914	\$ 119,777	\$ 874	\$ 1,481,396	
Special Mention	154	256	564	503	—	—	192	—	1,669	
Substandard	6,000	—	—	—	—	—	1,373	—	7,373	
Total	\$ 323,682	\$ 54,643	\$ 105,833	\$ 251,772	\$ 392,378	\$ 239,914	\$ 121,342	\$ 874	\$ 1,490,438	
Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (119)	\$ —	\$ (119)	
Commercial real estate										
Pass	\$ 670,042	\$ 190,753	\$ 311,980	\$ 426,750	\$ 428,240	\$ 210,915	\$ 14,873	\$ 2,138	\$ 2,255,691	
Special Mention	14,986	331	—	5,501	4,446	—	100	409	25,773	
Substandard	2,119	2,029	—	542	—	—	—	—	4,690	
Total	\$ 687,147	\$ 193,113	\$ 311,980	\$ 432,793	\$ 432,686	\$ 210,915	\$ 14,973	\$ 2,547	\$ 2,286,154	
Gross Charge-offs	\$ (512)	\$ —	\$ (814)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ (1,326)	
Commercial										
Pass	\$ 23,771	\$ 12,946	\$ 14,464	\$ 41,621	\$ 35,897	\$ 27,901	\$ 49,160	\$ 22,284	\$ 228,044	
Special Mention	143	—	—	425	—	—	251	—	819	
Substandard	160	69	—	—	487	—	314	46	1,076	
Total	\$ 24,074	\$ 13,015	\$ 14,464	\$ 42,046	\$ 36,384	\$ 27,901	\$ 49,725	\$ 22,330	\$ 229,939	
Gross Charge-offs	\$ (1)	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ (242)	\$ (243)	
Consumer										
Pass	\$ 621	\$ 961	\$ 14,158	\$ 76,629	\$ 143,507	\$ 91,415	\$ 699	\$ —	\$ 327,990	
Special Mention	—	—	—	—	—	—	2	—	2	
Substandard	—	38	5	80	780	—	1	—	904	
Total	\$ 621	\$ 999	\$ 14,163	\$ 76,709	\$ 144,287	\$ 91,415	\$ 702	\$ —	\$ 328,896	
Gross Charge-offs	\$ (522)	\$ —	\$ (16)	\$ (17)	\$ (8)	\$ (4)	\$ (7)	\$ —	\$ (574)	

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

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

(Dollars in thousands)	Accruing			30-89 days past due and not accruing	90 days past due and not accruing	Total past due	Current Accrual Loans	Current Non-Accrual Loans	Total
	30-59 days past due	60-89 days past due	90 days past due and still accruing						
June 30, 2024									
Construction	\$ 282	\$ —	\$ —	\$ —	\$ 207	\$ 489	\$ 327,386	\$ —	\$ 327,875
Residential real estate	4,157	378	155	860	3,607	9,157	1,528,121	2,313	1,539,591
Commercial real estate	568	293	—	—	572	1,433	2,280,805	5,259	2,287,497
Commercial	6	10	—	143	51	210	217,513	1,264	218,987
Consumer	1,253	1,367	—	12	324	2,956	321,471	52	324,479
Credit Cards	96	17	258	—	—	371	6,764	173	7,308
Total	\$ 6,362	\$ 2,065	\$ 413	\$ 1,015	\$ 4,761	\$ 14,616	\$ 4,682,060	\$ 9,061	\$ 4,705,737
Percent of total loans	0.14 %	0.04 %	0.01 %	0.02 %	0.10 %	0.31 %	99.50 %	0.19 %	100.0 %

(1) Includes loans measured at fair value of \$9.5 million at June 30, 2024.

	Accruing									
(Dollars in thousands)	30-59 days past due	60-89 days past due	90 days past due and still accruing	30-89 days past due and not accruing	90 days past due and not accruing	Total past due	Current Accrual Loans (1)	Current Non-Accrual Loans	Total	
December 31, 2023										
Construction	\$ 1,919	\$ —	\$ —	\$ —	\$ 221	\$ 2,140	\$ 296,455	\$ 405	\$ 299,000	
Residential real estate	2,420	271	108	1,469	2,668	6,936	1,481,294	2,208	1,490,438	
Commercial real estate	16	—	—	—	1,215	1,231	2,281,774	3,149	2,286,154	
Commercial	48	—	488	—	28	564	228,859	516	229,939	
Consumer	3,224	1,391	—	24	879	5,518	323,376	2	328,896	
Credit cards	\$ 35	\$ 36	\$ 142	\$ —	\$ —	\$ 213	\$ 6,370	\$ —	\$ 6,583	
Total	\$ 7,662	\$ 1,698	\$ 738	\$ 1,493	\$ 5,011	\$ 16,602	\$ 4,618,128	\$ 6,280	\$ 4,641,010	
Percent of total loans	0.17 %	0.04 %	0.02 %	0.03 %	0.11 %	0.37 %	99.50 %	0.13 %	100.00 %	

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

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

(Dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provisions	Ending Balance
For three months ended June 30, 2024						
Construction	\$ 3,558	\$ —	\$ 4	\$ 4	\$ (91)	\$ 3,471
Residential real estate	20,768	—	2	2	1,290	22,060
Commercial real estate	21,250	—	—	—	174	21,424
Commercial	2,879	(23)	2	(21)	8	2,866
Consumer ⁽¹⁾	8,682	(861)	68	(793)	256	8,145
Credit Card	199	(78)	—	(78)	391	512
Total	\$ 57,336	\$ (962)	\$ 76	\$ (886)	\$ 2,028	\$ 58,478

(1) Gross charge-offs of consumer loans for the three months ended June 30, 2024 included \$0.4 million of demand deposit overdrafts.

(Dollars in thousands)	Beginning Balance	Impact of ASC326 Adoption	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provisions	Ending Balance
For Three Months Ended June 30, 2023							
Construction	\$ 2,689	\$ —	\$ —	\$ 4	\$ 4	\$ (307)	\$ 2,386
Residential real estate	8,747	—	—	3	3	401	9,151
Commercial real estate	9,858	—	—	—	—	409	10,267
Commercial	1,921	—	—	1	1	34	1,956
Consumer	5,249	—	(177)	119	(58)	63	5,254
Total	\$ 28,464	\$ —	\$ (177)	\$ 127	\$ (50)	\$ 600	\$ 29,014

(Dollars in thousands)	Beginning Balance	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provisions	Ending Balance
For Six Months Ended June 30, 2024						
Construction	\$ 3,935	\$ (12)	\$ 6	\$ (6)	\$ (458)	\$ 3,471
Residential real estate	21,949	(1)	4	3	108	22,060
Commercial real estate	20,975	—	—	—	449	21,424
Commercial	2,671	(23)	3	(20)	215	2,866
Consumer	7,601	(1,386)	144	(1,242)	1,786	8,145
Credit Card	220	(194)	8	(186)	478	512
Total	\$ 57,351	\$ (1,616)	\$ 165	\$ (1,451)	\$ 2,578	\$ 58,478

(Dollars in thousands)	Beginning Balance	Impact of ASC326 Adoption	Merger Adjustments	Charge-offs	Recoveries	Net (charge-offs) recoveries	Provisions	Ending Balance
For Six Months Ended June 30, 2023								
Construction	\$ 2,973	\$ 1,222	\$ —	\$ —	7	\$ 7	\$ (1,816)	\$ 2,386
Residential real estate	2,622	4,974	—	—	34	34	1,521	9,151
Residential rentals	—	—	—	—	—	—	—	—
Commercial real estate	4,899	3,742	—	—	—	—	1,626	10,267
Commercial	1,652	401	—	—	8	8	(105)	1,956
Consumer	4,497	452	—	(284)	165	(119)	424	5,254
Credit Card	—	—	—	—	—	—	—	—
Total	\$ 16,643	\$ 10,791	\$ —	\$ (284)	\$ 214	\$ (70)	\$ 1,650	\$ 29,014

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

(Dollars in thousands)	June 30, 2024		
	Real Estate Collateral	Other Collateral	Total
Construction	\$ 207	\$ —	\$ 207
Residential real estate	19,072	—	19,072
Commercial real estate	7,746	—	7,746
Commercial	—	3,302	3,302
Consumer	—	387	387
Total	\$ 27,025	\$ 3,689	\$ 30,714

(Dollars in thousands)	December 31, 2023		
	Real Estate Collateral	Other Collateral	Total
Construction	\$ 662	\$ —	\$ 662
Residential real estate	8,047	—	8,047
Commercial real estate	6,134	—	6,134
Commercial	—	1,106	1,106
Consumer	—	904	904
Total	\$ 14,843	\$ 2,010	\$ 16,853

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

Loan Modifications to Borrowers Experiencing Financial Difficulty

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

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

The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty during three months ended June 30, 2024, and there were no modifications to loans for borrowers experiencing financial difficulty during the three months ended December 31, 2023.

(dollars in thousands)	Term Extension	Interest Rate Reduction	Payment Delay and Term Extension	Term Extension and Interest Rate Reduction	Payment Delay	Total	% of Total Portfolio Segment
June 30, 2024							
Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	— %
Residential real estate	—	—	—	—	—	—	— %
Residential rentals	—	—	—	—	—	—	— %
Commercial real estate	108	—	—	—	—	108	0.01 %
Commercial	222	—	—	—	—	222	0.10 %
Consumer	—	—	—	—	—	—	— %
Credit Cards	—	—	—	—	—	—	— %
Total	\$ 330	\$ —	\$ —	\$ —	\$ —	\$ 330	0.01 %

(dollars in thousands)	Term Extension	Interest Rate Reduction	Payment Delay and Term Extension	Term Extension and Interest Rate Reduction	Payment Delay	Total	% of Total Portfolio Segment
December 31, 2023							
Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	— %
Residential real estate	—	—	—	—	—	—	— %
Residential rentals	—	—	—	—	—	—	— %
Commercial real estate	125	—	—	—	—	125	0.01 %
Commercial	242	—	—	—	—	242	0.11 %
Consumer	—	—	—	—	—	—	— %
Credit Cards	—	—	—	—	—	—	— %
Total	\$ 367	\$ —	\$ —	\$ —	\$ —	\$ 367	0.01 %

The following table presents the financial effect of loan modifications made to borrowers experiencing financial difficulty during the three months ended June 30, 2024, and there were no modifications to loans for borrowers experiencing financial difficulty during the three months ended December 31, 2023.

(dollars in thousands)	Weighted-Average Months of Term Extension
June 30, 2024	
Commercial real estate	12 months
Commercial	12 months

(dollars in thousands)	Weighted-Average Months of Term Extension
December 31, 2023	
Commercial real estate	1.0 year
Commercial	1.0 year

During the three months ended June 30, 2024 and December 31, 2023, there were no defaults on loan modifications made to borrowers experiencing financial difficulty.

The following table present the aging analysis of loan modifications made to borrowers experiencing financial difficulty as of June 30, 2024, and there were no loan modifications made to borrowers experiencing financial difficulty at December 31, 2023.

(Dollars in thousands)	Accruing		90 days past due and still accruing	90 days past due and not accruing	Total past due	Current Accrual	Current Non-Accrual	Total Recorded Investment
	30-59 days past due	60-89 days past due						
June 30, 2024								
Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential real estate	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	108	108
Commercial	—	—	—	—	—	—	222	222
Consumer	—	—	—	—	—	—	—	—
Credit Cards	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 330	\$ 330

(Dollars in thousands)	Accruing				Total past due	Current Accrual	Current Non-Accrual	Total Recorded Investment
	30-59 days past due	60-89 days past due	90 days past due and still accruing	90 days past due and not accruing				
December 31, 2023								
Construction	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Residential real estate	—	—	—	—	—	—	—	—
Residential rentals	—	—	—	—	—	—	—	—
Commercial real estate	—	—	—	—	—	—	125	125
Commercial	—	—	—	—	—	153	89	242
Consumer	—	—	—	—	—	—	—	—
Credit Cards	—	—	—	—	—	—	—	—
Total	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 153	\$ 214	\$ 367

Foreclosure Proceedings

There were \$0.2 million of consumer mortgage loans collateralized by residential real estate property that were in the process of foreclosure as of June 30, 2024 and \$0.2 million as of December 31, 2023, respectively. There were no residential real estate properties included in the balance of other real estate owned (“OREO”) at June 30, 2024 and December 31, 2023.

Note 5 – Goodwill and Other Intangibles

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

June 30, 2024						
(Dollars in thousands)	Gross Carrying Amount	Additions	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (in years)
Goodwill	\$ 65,476	\$ —	\$ (1,543)	\$ (667)	\$ 63,266	0.0 years
Other intangible assets						
Amortizable						
Core deposit intangible	\$ 59,151	\$ —	\$ —	\$ (16,206)	\$ 42,945	3.6 years
Total other intangible assets	\$ 59,151	\$ —	\$ —	\$ (16,206)	\$ 42,945	

December 31, 2023						
(Dollars in thousands)	Gross Carrying Amount	Additions	Accumulated Impairment Charges	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Life (in years)
Goodwill	\$ 65,476	\$ —	\$ (1,543)	\$ (667)	\$ 63,266	0.0 years
Other intangible assets						
Amortizable						
Core deposit intangible	\$ 10,503	48,648	\$ —	\$ (11,061)	\$ 48,090	3.7 years
Total other intangible assets	\$ 10,503	\$ 48,648	\$ —	\$ (11,061)	\$ 48,090	

The aggregate amortization expense was \$5.1 million for the six months ended June 30, 2024 and \$0.9 million for the six months ended June 30, 2023.

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

(Dollars in thousands)	Amortization Expense
2024	\$ 4,634
2025	8,589
2026	7,398
2027	6,208
2028	5,060
Thereafter	11,056
Total amortizing intangible assets	\$ 42,945

Note 6 – Leases

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

The Company's long-term lease agreements are classified as operating leases. Certain 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, 2024	December 31, 2023
Lease liabilities	\$ 12,189	\$ 12,857
Right-of-use assets	\$ 11,762	\$ 12,487
Weighted average remaining lease term	10.61 years	10.88 years
Weighted average discount rate	3.26 %	3.24 %
Remaining lease term - min	0.08 years	0.39 years
Remaining lease term - max	17.18 years	17.68 years

Lease cost (in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Operating lease cost	\$ 494	\$ 327	\$ 986	\$ 667
Total lease cost	\$ 494	\$ 327	\$ 986	\$ 667
Cash paid for amounts included in the measurement of lease liabilities	\$ 466	\$ 310	\$ 928	\$ 631

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

Lease payments due (in thousands)	As of June 30, 2024
Six months ending December 31, 2024	\$ 899
2025	1,680
2026	1,639
2027	1,511
2028	1,460
Thereafter	7,281
Total undiscounted cash flows	\$ 14,470
Discount	2,281
Lease liabilities	\$ 12,189

Total gross rental income was \$0.3 million and \$0.3 million for the three months ended June 30, 2024 and 2023, respectively. Total gross rental income was \$0.5 million and \$0.7 million for the six months ended June 30, 2024 and 2023, respectively.

The following table presents our minimum future annual rental income on such leases as of June 30, 2024.

(In thousands)	As of June 30, 2024
Six months ending December 31, 2024	\$ 446
2025	908
2026	932
2027	619
2028	637
Thereafter	2,477
Total	\$ 6,019

Note 7 - Deposits

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

(dollars in thousands)	June 30, 2024		December 31, 2023	
	Balance	%	Balance	%
Noninterest-bearing demand	\$ 1,587,252	30.83 %	\$ 1,258,037	23.36 %
Interest-bearing:				
Demand	658,512	12.79 %	1,165,546	21.64 %
Money market deposits	1,337,274	25.97 %	1,430,603	26.56 %
Savings	352,069	6.84 %	347,324	6.45 %
Certificates of deposit	1,213,778	23.57 %	1,184,610	21.99 %
Total interest-bearing	3,561,633	69.17 %	4,128,083	76.64 %
Total Deposits	\$ 5,148,885	100.00 %	\$ 5,386,120	100.00 %

At June 30, 2024, the scheduled contractual maturities of certificates of deposit are as follows:

(dollars in thousands)	June 30, 2024
Within one year	\$ 1,012,597
Year 2	169,730
Year 3	16,729
Year 4	8,512
Year 5	6,206
Thereafter	4
	\$ 1,213,778

The aggregate amount of certificates of deposit that met or exceeded the FDIC insurance limit of \$250,000 at June 30, 2024 and December 31, 2023 was \$372.7 million and \$354.6 million, respectively.

Note 8 - Borrowings

Long-term debt consisted of the following:

(dollars in thousands)	June 30, 2024	December 31, 2023	Issue Date	Stated Maturity Date	Earliest Call Date	Interest Rate
FHLB Advances	\$ 50,000	—	2024	2025		4.786%
Total long-term advances	50,000	—				
September 2030 Subordinated Debentures	25,000	\$ 25,000	2020	2030	2025	5.375% through September 2025, 3-month SOFR + 5.265% thereafter
October 2030 Subordinated Debentures	19,500	19,500	2020	2030	2025	4.75% through October 2025, 3-month SOFR + 4.58% thereafter
Total subordinated debentures	44,500	44,500				
Severn Capital Trust I	20,619	20,619	2004	2035		3-month SOFR + 2.00%
Tri-County Capital Trust I	7,000	7,000	2004	2034		90-day SOFR + 2.60%
Tri-County Capital Trust II	5,000	5,000	2005	2035		90-day SOFR + 1.70%
Total trust preferred securities	32,619	32,619				
Less net discount and unamortized issuance costs	(4,299)	(4,822)				
Total long-term debt	\$ 122,820	\$ 72,297				

At June 30, 2024, subordinated notes consisted of \$25.0 million of long-term debt issued by the Company in August 2020, and \$19.5 million of long-term debt assumed as a result of the merger with TCFC. The recorded balance of subordinated debt issued in 2020 and the assumed subordinated debt from TCFC, net of unamortized issuance costs and fair value discounts, respectively, were \$24.9 million and \$18.6 million, respectively.

The Company also assumed TRUPS in the aggregate of \$32.6 million as a result of the merger with TCFC in the third quarter of 2023 and the acquisition of Severn in the fourth quarter of 2022. Trust preferred securities consisted of \$20.6 million issued to Severn Capital Trust I, \$7.0 million issued by Tri-County Capital Trust I and \$5.0 million issued by Tri-County Capital Trust II. The recorded balance of the debt acquired from Severn at June 30, 2024 was \$18.7 million, net of the unamortized fair value adjustment of \$1.9 million. At June 30, 2024, the junior subordinated debt securities of Tri-County Capital Trust I and Tri-County Capital Trust II had a recorded balance of \$6.4 million and \$4.2 million, which are presented as net of the unamortized fair value adjustment of \$0.6 million and \$0.8 million, respectively.

The Company may periodically borrow from a correspondent federal funds line of credit arrangement, under a secured reverse repurchase agreement, or from the Federal Home Loan Bank (“FHLB”) to meet short-term liquidity needs. There were \$50.0 million outstanding long-term borrowings from the FHLB at June 30, 2024 and zero at December 31, 2023. The Company also had short-term borrowings from FHLB of \$31.0 million at June 30, 2024 and zero at December 31, 2023, respectively. Further information on these obligations is provided in the Company’s 2023 Annual Report.

Note 9 - 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 190,166 shares remained available for grant at June 30, 2024.

The Company assumed 3,977 shares of restricted stock and 90,783 of restricted stock units at a fair market value of \$11.56 per share as a result of the merger with TCFC. The vesting period for the outstanding restricted stock grants is between three and five years. Restricted stock units and performance stock units vesting period is between one to three years. The recipients of the restricted stock units and

performance stock units do not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until the recipient becomes the record holder of those shares.

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

The following table summarizes restricted stock award and restricted stock unit activity for the Company under the 2016 Equity Plan for the six months ended June 30, 2024.

	Restricted Stock		Restricted Stock Units		Performance Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested at beginning of period	45,322	\$ 15.42	165,055	\$ 11.56	—	\$ —
Granted	51,610	11.39	53,279	11.31	43,651	11.32
Vested	(27,865)	17.07	(35,146)	11.56	—	—
Forfeited	—	—	(3,256)	11.56	—	—
Nonvested at end of period	69,067	\$ 11.74	179,932	\$ 11.49	43,651	\$ 11.32

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

Note 10 – Derivatives

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

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

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

(Dollars in thousands)	June 30, 2024		December 31, 2023	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Asset - IRLCs	\$ 13,904	\$ 208	\$ 6,785	\$ 110
Asset - TBA securities	19,500	85	1,000	2
Liability - TBA securities	4,000	7	18,000	176

Note 11 – Accumulated Other Comprehensive Loss

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

(Dollars in thousands)	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
	Net Unrealized Losses	Net Unrealized Losses	Net Unrealized Losses	Net Unrealized Gains And (Losses)
Beginning of period	\$ (8,058)	\$ (8,161)	\$ (7,494)	\$ (9,021)
Other comprehensive (loss) income, net of tax	(202)	(400)	(766)	460
End of period	\$ (8,260)	\$ (8,561)	\$ (8,260)	\$ (8,561)

Note 12 – Regulatory Capital

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

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

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

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

The table presents the actual and required capital ratios for the Company and Bank as of June 30, 2024 and December 31, 2023.

(dollars in thousands)	Actual		Regulatory Min. Ratio + CCB ⁽¹⁾		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2024						
Common Tier 1 Capital to RWA						
The Company	\$ 435,238	9.06 %	\$ 336,226	7.00 %	\$ 312,210	6.50 %
The Bank	501,003	10.45 %	335,756	7.00 %	311,773	6.50 %
Tier 1 Capital to RWA						
The Company	464,554	9.67 %	408,275	8.50 %	384,258	8.00 %
The Bank	501,003	10.45 %	407,704	8.50 %	383,721	8.00 %
Total Capital to RWA						
The Company	567,680	11.82 %	504,339	10.50 %	480,323	10.00 %
The Bank	560,625	11.69 %	503,634	10.50 %	479,651	10.00 %
Tier 1 Capital to AA (Leverage) ⁽²⁾						
The Company	464,554	8.07 %	230,250	4.00 %	287,813	5.00 %
The Bank	501,003	8.71 %	230,024	4.00 %	287,530	5.00 %
December 31, 2023						
Common Tier 1 Capital to RWA						
The Company	\$ 408,317	8.69 %	\$ 328,825	7.00 %	\$ 305,338	6.50 %
The Bank	470,200	10.02 %	328,511	7.00 %	305,046	6.50 %
Tier 1 Capital to RWA						
The Company	437,475	9.31 %	399,288	8.50 %	375,800	8.00 %
The Bank	470,200	10.02 %	398,906	8.50 %	375,441	8.00 %
Total Capital to RWA						
The Company	539,200	11.48 %	493,238	10.50 %	469,750	10.00 %
The Bank	528,786	11.27 %	492,766	10.50 %	469,301	10.00 %
Tier 1 Capital to AA (Leverage) ⁽²⁾						
The Company	437,475	7.74 %	225,965	4.00 %	282,456	5.00 %
The Bank	470,200	8.33 %	225,797	4.00 %	282,247	5.00 %

The following tables present the capital amounts as of June 30, 2024 and December 31, 2023.

Regulatory Capital and Ratios (dollars in thousands)	The Company		The Bank	
	June 30, 2024	December 31, 2023	June 30, 2024	December 31, 2023
Common equity	\$ 522,783	\$ 511,135	\$ 587,283	\$ 570,100
Goodwill ⁽⁴⁾	(61,460)	(63,266)	(61,460)	(63,266)
Core deposit intangible ⁽³⁾	(32,313)	(38,069)	(32,313)	(38,069)
DTAs that arise from net operating loss and tax credit carry forwards	(2,032)	(8,977)	(767)	(6,059)
AOCI losses	8,260	7,494	8,260	7,494
Common Equity Tier 1 Capital	435,238	408,317	501,003	470,200
TRUPs	29,316	29,158	—	—
Tier 1 Capital	464,554	437,475	501,003	470,200
Allowable reserve for credit losses and other Tier 2 adjustments	59,622	58,586	59,622	58,586
Subordinated debentures	43,504	43,139	—	—
Total Capital	\$ 567,680	\$ 539,200	\$ 560,625	\$ 528,786
Risk-Weighted Assets ("RWA")	\$ 4,803,230	\$ 4,697,504	\$ 4,796,512	\$ 4,693,009
Average Assets ("AA")	\$ 5,756,260	\$ 5,649,116	\$ 5,750,604	\$ 5,644,930

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

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

(3) Core deposit intangible is net of deferred tax liability.

(4) Goodwill is net of deferred tax liability.

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

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

Note 13 – Fair Value Measurements

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

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities on a recurring basis and to determine fair value disclosures. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

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

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

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

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

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

Investment Securities Available for Sale

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

Equity Securities

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

Loans Held for Sale

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

Mortgage Servicing Rights

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

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

IRLCs

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

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range
June 30, 2024				
MSRs ⁽¹⁾	\$ 5,995	Market Approach	Weighted average prepayment speed (PSA) ⁽²⁾	136
IRLCs - net asset	\$ 208	Market Approach	Range of pull through rate Average pull through rate	77% - 100% 96%
December 31, 2023				
MSRs ⁽¹⁾	\$ 5,926	Market Approach	Weighted average prepayment speed (PSA) ⁽²⁾	129
IRLCs - net asset	\$ 110	Market Approach	Range of pull through rate Average pull through rate	78% - 100% 98%

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

(2) PSA = Public Securities Association Standard Prepayment Model

The following table presents activity in MSRs for the three and six months ended June 30, 2024.

(Dollars in thousands)	Three Months Ended June 30, 2024	Six Months Ended June 30, 2024
Beginning balance	\$ 5,821	\$ 5,926
Servicing rights resulting from sales of loans	80	198
Valuation adjustment	94	(129)
Ending balance	\$ 5,995	\$ 5,995

The following table presents activity in the IRLCs - net asset for the three and six months ended June 30, 2024.

(Dollars in thousands)	Three Months Ended June 30, 2024	Six Months Ended June 30, 2024
Beginning balance	\$ 232	\$ 110
Valuation adjustment	(24)	98
Ending balance	\$ 208	\$ 208

Forward Contracts

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

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

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

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2024				
Assets:				
Securities available for sale:				
U.S. Government agencies	\$ 20,160	\$ —	\$ 20,160	\$ —
Mortgage-backed	105,473	—	105,473	—
Other debt securities	5,961	—	5,961	—
	<u>131,594</u>	<u>—</u>	<u>131,594</u>	<u>—</u>
Equity securities	5,699	—	5,699	—
TBA forward trades	85	—	85	—
Loans Held for Sale	27,829	—	27,829	—
Loans Held for Investment, at fair value	9,515	—	9,515	—
MSRs	5,995	—	—	5,995
IRLCs	208	—	—	208
Total assets at fair value	\$ 180,925	\$ —	\$ 174,722	\$ 6,203
Liabilities:				
TBA securities	7	—	7	—
Total liabilities at fair value	\$ 7	\$ —	\$ 7	\$ —

(Dollars in thousands)	Fair Value	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023				
Assets:				
Securities available for sale:				
U.S. Government agencies	\$ 20,475	\$ —	\$ 20,475	\$ —
Mortgage-backed	84,027	—	84,027	—
Other debt securities	6,019	—	6,019	—
	<u>110,521</u>	<u>—</u>	<u>110,521</u>	<u>—</u>
Equity securities	5,703	—	5,703	—
TBA forward trades	2	—	2	—
Loans Held for Sale	8,782	—	8,782	—
Loans Held for Investment, at fair value	9,944	—	9,944	—
MSRs	5,926	—	—	5,926
IRLCs	110	—	—	110
Total assets at fair value	\$ 140,988	\$ —	\$ 134,952	\$ 6,036
Liabilities:				
TBA securities	\$ 176	\$ —	\$ 176	\$ —
Total liabilities at fair value	\$ 176	\$ —	\$ 176	\$ —

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

Individually Evaluated Collateral-Dependent Loans

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

Other Real Estate Owned (Foreclosed Assets)

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

Reposessed Properties

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

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

Quantitative Information about Level 3 Fair Value Measurements					
(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average ⁽¹⁾
June 30, 2024					
Nonrecurring measurements:					
Individually evaluated collateral dependent loans	\$ 2,311	Appraisal of collateral ⁽¹⁾	Appraisal adjustment ⁽²⁾ Liquidation expense ⁽²⁾	40% 10%	40% 10%
Other real estate owned	\$ 179	Appraisal of collateral ⁽¹⁾	Appraisal adjustment ⁽²⁾	0% - 20%	0%
Reposessed properties	\$ 1,560	Appraisal of collateral ⁽¹⁾	Appraisal adjustment ⁽²⁾	0% - 13%	13%

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

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

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

Note 14 – Fair Value of Financial Instruments

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

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

June 30, 2024		Fair Value Measurements				
Description of Asset (dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Assets						
Cash and cash equivalents	\$ 138,883	\$ 138,883	\$ 138,883	\$ —	\$ —	
Investment securities - AFS	131,594	131,594	—	131,594	—	
Investment securities - HTM, net	499,431	440,164	—	440,164	—	
Equity securities	5,699	5,699	—	5,699	—	
Restricted securities	21,725	21,725	—	21,725	—	
Loans held for sale	27,829	27,829	—	27,829	—	
TBA derivatives trades	85	85	—	85	—	
Cash surrender value on life insurance	102,969	102,969	—	102,969	—	
Loans, at fair value	9,515	9,515	—	9,515	—	
Loans, net	4,637,744	4,454,771	—	—	4,454,771	
MSRs	5,995	5,995	—	—	5,995	
IRLCs	208	208	—	—	208	
Liabilities						
Deposits:						
Noninterest-bearing demand	\$ 1,587,252	\$ 1,587,252	\$ —	\$ 1,587,252	\$ —	
Checking plus interest	658,512	658,512	—	658,512	—	
Money Market	1,337,274	1,337,274	—	1,337,274	—	
Savings	350,734	350,734	—	350,734	—	
Club	1,335	1,335	—	1,335	—	
Certificates of Deposit	1,213,778	1,212,174	—	1,212,174	—	
Advances from FHLB	81,000	80,786	—	80,786	—	
Subordinated debt, net	43,504	43,587	—	43,587	—	
TRUPS, net	29,316	27,691	—	27,691	—	
TBA Securities	7	7	—	7	—	
IRLCs	—	—	—	—	—	

December 31, 2023

December 31, 2023	Fair Value Measurements				
Description of Asset (dollars in thousands)	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 372,413	\$ 372,413	\$ 372,413	\$ —	\$ —
Investment securities - AFS	110,521	110,521	—	110,521	—
Investment securities - HTM	513,188	457,830	—	457,830	—
Equity securities	5,703	5,703	—	5,703	—
Loans held for sale	8,782	8,782	—	8,782	—
TBA securities	2	2	—	2	—
Cash surrender value on life insurance	101,704	101,704	—	101,704	—
Loans, at fair value	9,944	9,944	—	9,944	—
Loans, net	4,573,715	4,477,468	—	—	4,477,468
MSRs	5,926	5,926	—	—	5,926
IRLCs	110	110	—	—	110
Liabilities					
Deposits:					
Noninterest-bearing demand	\$ 1,258,037	\$ 1,258,037	\$ —	\$ 1,258,037	\$ —
Checking plus interest	1,165,546	1,165,546	—	1,165,546	—
Money Market	1,430,603	1,430,603	—	1,430,603	—
Savings	347,324	347,324	—	347,324	—
Certificates of Deposit	1,184,610	1,184,447	—	1,184,447	—
Subordinated debt, net	43,139	42,579	—	42,579	—
TRUPS, net	29,158	28,266	—	28,266	—
TBA Securities	176	176	—	176	—

Note 15 – Commitments and Contingencies

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

The following table provides information on commitments outstanding at June 30, 2024 and December 31, 2023.

(Dollars in thousands)	June 30, 2024	December 31, 2023
Commitments to extend credit	\$ 676,715	\$ 613,266
Letters of credit	26,490	28,519
Total	\$ 703,205	\$ 641,785

The Company provides banking services to customers who do business in the cannabis industry. While the Company is providing banking services to customers that are engaged in the growing, processing, and sales of cannabis in a manner that complies with applicable state law, such customers engaged in those activities currently violate Federal laws. The Company may be deemed to be aiding and abetting illegal activities through the services that it provides to these customers. While we are not aware of any instance of a federally-insured financial institution being subject to such aiding and abetting liability, the strict enforcement of Federal laws regarding cannabis would likely result in the Company's inability to continue to provide banking services to these customers and the Company could have legal action taken against it by the Federal government, including imprisonment and fines. There is an uncertainty of the potential impact to the Company's Consolidated Financial Statements if the Federal government takes actions against the Company. As of June 30, 2024, the Company had not accrued an amount for the potential impact of any such actions.

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

- Deposit and loan balances at June 30, 2024 were approximately \$202.3 million, or 3.9% of total deposits, and \$73.6 million, or 1.6% of total gross loans, respectively.
- Interest and noninterest income for the six months ended June 30, 2024, were approximately \$2.0 million and \$0.6 million, respectively.

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

Note 16 – Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net Income	\$ 11,234	\$ 4,018	\$ 19,418	\$ 10,475
Average number of common shares outstanding	33,234	19,903	33,212	19,895
Dilutive effect of common stock equivalents	—	—	—	—
Average number of shares used to calculate diluted EPS	33,234	19,903	33,212	19,895
Anti-dilutive shares	9	—	5	—
Earnings per common share				
Basic	\$ 0.34	\$ 0.20	\$ 0.58	\$ 0.53
Diluted	\$ 0.34	\$ 0.20	\$ 0.58	\$ 0.53

As of three and six months ended June 30, 2024 there were 9,000 and 5,000, respectively, of unvested restricted stock and performance stock unit awards which were excluded from the calculation as their effect would be anti-dilutive. There were no antidilutive awards that were excluded from the calculation for the three and six months ended June 30, 2023.

Note 17 – Revenue Recognition

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

Service Charges on Deposit Accounts

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

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

Trust and Investment Fee Income

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

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

Title Company Revenue

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

All contract issuance costs are expensed as incurred. We had no contract assets or liabilities at June 30, 2024.

Other Noninterest Income

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

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and six months ended June 30, 2024 and 2023.

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Noninterest Income				
<i>In-scope of Topic 606:</i>				
Service charges on deposit accounts	\$ 1,493	\$ 1,264	\$ 3,001	\$ 2,477
Trust and investment fee income	896	399	1,630	831
Interchange income	1,717	1,311	3,304	2,523
Title Company revenue	165	186	243	323
Other noninterest income	981	500	1,783	945
Noninterest Income (in-scope of Topic 606)	5,252	3,660	9,961	7,099
Noninterest Income (out-of-scope of Topic 606)	3,188	1,634	5,046	3,529
Total Noninterest Income	\$ 8,440	\$ 5,294	\$ 15,007	\$ 10,628

Item 2 – Management’s Discussion and Analysis (“MD&A”) of Financial Condition and Results of Operations.

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

Forward-Looking Information

This Quarterly Report on Form 10-Q contains forward-looking statements. The statements contained herein that are not historical facts are forward-looking statements (as defined by the Private Securities Litigation Reform Act of 1995) based on management’s current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by management. These statements are evidenced by terms such as “anticipate,” “estimate,” “should,” “expect,” “believe,” “intend,” and similar expressions. Although these statements reflect management’s good faith beliefs and projections, they are not guarantees of future performance and they may not prove true. These projections involve risk and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. While there is no assurance that any list of risks and uncertainties or risk factors is complete, below are certain factors which could cause actual results to differ materially from those contained or implied in the forward-looking statements:

- general economic conditions, (including the interest rate environment, government economic and monetary policies, the strength of global financial markets and inflation/deflation and supply chain issues), whether national or regional, and conditions in the lending markets in which we participate that may have an adverse effect on the demand for our loans and other products, our credit quality and related levels of nonperforming assets and loan losses, and the value and salability of the real estate that we own or that is the collateral for our loans;
- recent adverse developments in the banking industry highlighted by high-profile bank failures and the potential impact of such developments on customer confidence, liquidity, and regulatory responses to these developments;
- the Company’s ability to remediate the material weaknesses identified in the Company’s internal control over financial reporting;
- the effectiveness of the Company’s internal control over financial reporting and disclosure controls and procedures;
- cybersecurity threats and the cost of defending against them;
- results of examinations of us by our regulators, including the possibility that our regulators may, among other things, require us to increase our reserve for loan losses or to write-down assets;
- changing bank regulatory conditions, policies or programs, whether arising as new legislation or regulatory initiatives, which could lead to restrictions on activities of banks generally, or our subsidiary bank in particular, more restrictive regulatory capital requirements, increased costs, including deposit insurance premiums, regulation or prohibition of certain income producing activities or changes in the secondary market for loans and other products;
- changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet;
- our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- our ability to prudently manage our growth and execute our strategy;
- impairment of our goodwill and intangible assets;
- competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the expected cost savings, synergies and other financial benefits from the acquisition of The Community Financial Corporation (“TCFC”) or any other acquisition the Company has made or may make might not be realized within the expected time frames or at all;
- the growth and profitability of non-interest or fee income being less than expected;
- the effect of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- the effect of any change in federal government enforcement of federal laws affecting the cannabis industry;
- the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board (the “FASB”), the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board and other regulatory agencies;
- potential changes in federal policy and at regulatory agencies as a result of the upcoming 2024 presidential election;
- a deterioration of the credit rating for U.S. long-term sovereign debt, actions that the U.S. government may take to avoid exceeding the debt ceiling, and uncertainties surrounding the debt ceiling and the federal budget;
- the impact of recent or future changes in Federal Deposit Insurance Corporation (the “FDIC”) insurance assessment rate or the rules and regulations related to the calculation of the FDIC insurance assessment amount, including any special assessments;
- the effect of fiscal and governmental policies of the U.S. federal government;
- climate change, including the enhanced regulatory, compliance, credit and reputational risks and costs; and
- geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts of terrorism, and/or military conflicts, including the war between Russian and Ukraine and the conflict in the Middle East, which could impact business and economic conditions in the United States and abroad.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the “2023 Annual Report”) filed with SEC and available at the SEC’s Internet site (<http://www.sec.gov>).

The Company specifically disclaims any obligation to update any factors or to publicly announce the result of revisions to any of the forward-looking statements included herein to reflect future events or developments.

Critical Accounting Policies

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

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

Allowance for Credit Losses on Loans

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

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

Goodwill and Bargain Purchase Gain

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

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

Loans Acquired in a Business Combination

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

PCD loans are those for which there is more than insignificant evidence of credit deterioration since origination. When determining fair value as of the date of acquisition, PCD loans are aggregated into pools based on common risk characteristics such as loan type, date of origination, and evidence of credit quality deterioration based on internal risk grades and past due and nonaccrual status. At the acquisition

date, the ACL is determined and added to the fair value of the loan to determine the new amortized cost basis. The difference between the new amortized cost basis and the unpaid principal balance is either a noncredit discount or premium that will be amortized or accreted into the interest income over the remaining life of the loan. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCD loan portfolio at its carrying amount.

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

Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. The Company accounts for income taxes using the liability method in accordance with required accounting guidance. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance, if needed, reduces deferred tax assets to the expected amount most likely to be realized. Realization of deferred tax assets is dependent on the generation of a sufficient level of future taxable income, recoverable taxes paid in prior years and tax planning strategies. The Company evaluates all positive and negative evidence before determining if a valuation allowance is deemed necessary regarding the realization of deferred tax assets.

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

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

Introduction

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

Shore Bancshares, Inc. is headquartered on the Eastern Shore of Maryland. It is the parent company of Shore United Bank, N.A. (the "Bank"). The Bank operates 41 full-service branches in Baltimore County, Howard County, Kent County, Queen Anne's County, Caroline County, Talbot County, Dorchester County, Anne Arundel County, Charles County, St Mary's County, Calvert County and Worcester County in Maryland, Kent County and Sussex County in Delaware, Fredericksburg City, Stafford County and Spotsylvania County in Virginia. The Company through Wye Financial Partners, a department of the Bank, provides full-service investment and insurance solutions through our broker/dealer, LPL Financial. The Bank also offers wealth management solutions such as corporate trustee services and trust administration through Wye Trust, a division of the Bank. The Company also engages in title work for real estate transactions through its wholly-owned subsidiary, Mid-Maryland Title Company, Inc.

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

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.

OVERVIEW

The Company's net income for the second quarter of 2024 was \$11.2 million or \$0.34 per diluted common share compared to net income of \$8.2 million or \$0.25 per diluted common share for the first quarter of 2024, and net income of \$4.0 million or \$0.20 per diluted common share for the second quarter of 2023. Net income for the first-half of 2024 was \$19.4 million or \$0.58 per diluted common share, compared to net income for the first-half of 2023 of \$10.5 million or \$0.53 per diluted common share.

Second Quarter and First-Half of 2024 Highlights

- **Return on Average Assets ("ROAA")** - The Company reported ROAA of 0.77% for the second quarter of 2024, compared to 0.57% for the first quarter of 2024 and 0.45% for the second quarter of 2023. Non-GAAP ROAA, which excludes fraud expense, core deposit intangible amortization, and merger-related expenses, was 0.91% for the second quarter of 2024, compared to 0.94% for the first quarter of 2024 and 0.59% for the second quarter of 2023.
- **Net Interest Margin Expansion** - Net interest margin ("NIM") increased to 3.11% for the second quarter of 2024, from 3.08% for the first quarter of 2024. Excluding net accretion interest income of \$3.8 million and \$3.6 million for the same time periods, NIM increased two basis points ("bps") to 2.83% for the second quarter of 2024, from 2.81% for the first quarter of 2024.
- **Continued Stable and Low Cost Funding** - Total deposits remained stable in the second quarter of 2024 with noninterest-bearing deposits increasing \$386.6 million to 30.8% of total deposits. The increase in noninterest-bearing deposits was primarily due to the migration of low-cost demand deposits to noninterest-bearing deposits and successful initiatives designed to drive noninterest-bearing deposit growth. The total average cost of deposits for the second quarter of 2024 declined four bps to 2.19% when compared to the first quarter of 2024.
- **Improving Earnings Drive Capital Accretion** - Second quarter net interest income and noninterest income increased \$1.0 million and \$1.9 million, respectively, from the first quarter of 2024. Net interest income increased due to modest loan growth, slightly higher accelerated accretion income, the repricing of loans and securities. Noninterest income increased primarily due to higher mortgage-banking revenue from the increased volume and sales of residential mortgages. The improved earnings for the second quarter resulted in a 14 bps increase in the Company's Tier 1 Capital Ratio and a 14 bps increase in the Company's Total Risk-Based Capital Ratio, which were 9.67% and 11.82%, respectively, on June 30, 2024. The Company's leverage ratio and tangible common equity ratio also increased to 8.07% and 7.23%, respectively, in the second quarter of 2024.
- **Reduced Commercial Real Estate ("CRE") Concentration** - The CRE Concentration Ratio, which is calculated as non-owner occupied CRE loans as a percentage of the Bank's Tier 1 Capital + Allowance for Credit Losses ("ACL"), decreased in the second quarter of 2024 to 368.7% from 370.0% in the first quarter of 2024 and 382.6% in the fourth quarter of 2023. Capital accretion has allowed the Bank to meet the needs of its customers and fund new CRE loans.
- **Improving Operating Leverage** - The second quarter efficiency ratio improved to 66.2% when compared to 76.9% in the first quarter 2024 and 77.8% in the second quarter 2023. The second quarter Non-GAAP efficiency ratio, which excludes core deposit intangible amortization and non-recurring activity, improved to 61.1% when compared to 62.4% in the first quarter 2024 and 71.8% in the second quarter 2023. Management anticipates ongoing expense management and technology investments will result in continued improvements in operating leverage over time.

SUMMARY OF OPERATING RESULTS

A comparison of the results of operations for the three and six months ended June 30, 2024 and June 30, 2023 is presented below.

(Dollars in thousands)	Unaudited (QTD)		Unaudited (YTD)	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
OPERATING DATA				
Interest income	\$ 73,106	\$ 36,633	\$ 144,245	\$ 71,695
Interest expenses	30,966	14,139	60,970	23,537
Net interest income ("NII")	42,140	22,494	83,275	48,158
Provision for credit losses	2,081	667	2,488	1,880
NII after provision for credit losses	40,059	21,827	80,787	46,278
Noninterest income	8,440	5,294	15,007	10,628
Noninterest expenses	33,499	21,608	70,197	42,501
Income before income tax taxes	15,000	5,513	25,597	14,405
Income tax expense	3,766	1,495	6,179	3,930
Net income	\$ 11,234	\$ 4,018	\$ 19,418	\$ 10,475

(Dollars in thousands, except per share amounts)	Unaudited (QTD)		Unaudited (YTD)	
	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
KEY OPERATING RATIOS				
Return on average assets ("ROAA")	0.77 %	0.45 %	0.67 %	0.59 %
Return on average equity ("ROAE")	8.70	4.49	7.54	5.83
Return on average tangible equity ("ROATCE") Non-GAAP ⁽¹⁾	12.85	7.16	13.08	8.57
Average total equity to average total assets	8.90	7.16	8.92	10.20
Interest rate spread	2.11	2.04	2.23	2.35
Net interest margin	3.11	2.68	3.09	2.93
Efficiency ratio ⁽²⁾	66.23	77.76	71.42	72.30
Non-interest income to average assets	0.58	0.59	0.52	0.60
Non-interest expense to average assets	2.31	2.41	2.43	2.41
Net operating expense to average assets ⁽³⁾	1.73	1.82	1.91	1.81

COMMON SHARE DATA

Basic and diluted net income per common share	\$ 0.34	\$ 0.20	\$ 0.58	\$ 0.53
Cash dividends paid per common share	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Common dividend payout ratio	35.48 %	60.00 %	41.20 %	45.28 %

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

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

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

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2024 AND 2023

Summary of Financial Results

The Company reported net income for the three months ended June 30, 2024 of \$11.2 million or \$0.34 diluted earnings per share compared to net income of \$4.0 million or diluted earnings per share of \$0.20 for the three months ended June 30, 2023. The Company's ROAA, ROACE and ROATCE were 0.77%, 8.70% and 12.85%, respectively, for the three months ended June 30, 2024 compared to 0.45%, 4.49% and 7.16%, respectively, for the three months ended June 30, 2023.

(Dollars in thousands)	Three Months Ended June 30,		\$ Change	% Change
	2024	2023		
Interest and dividend income	\$ 73,106	\$ 36,633	\$ 36,473	99.56 %
Interest expenses	30,966	14,139	16,827	119.01 %
Net interest income	42,140	22,494	19,646	87.34 %
Provision for credit losses	2,081	667	1,414	211.99 %
Noninterest income	8,440	5,294	3,146	59.43 %
Noninterest expenses	33,499	21,608	11,891	55.03 %
Income before income taxes	15,000	5,513	9,487	172.08 %
Income tax expense	3,766	1,495	2,271	151.91 %
Net income	\$ 11,234	\$ 4,018	\$ 7,216	179.59 %

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 \$42.2 million for the second quarter of 2024 and \$22.5 million for the second quarter of 2023. The increase in net interest income when compared to the second quarter of 2023 was primarily due to the increase in interest and fees on loans, interest and dividends on investment securities and interest on deposits from other banks, coupled with a decrease in interest on short-term borrowings. These improvements to net interest income were partially offset by the increase in interest on deposits and interest on long-term borrowings all significantly impacted by the merger with TCFC in the third quarter of 2023.

(Dollars in thousands)	Three Months Ended June 30,		\$ Change	% Change
	2024	2023		
Interest and dividend income				
Loans, including fees	\$ 67,292	\$ 32,729	\$ 34,563	105.60 %
Interest and dividends on investment securities	5,236	3,734	1,502	40.22 %
Interest on deposits with banks	578	170	408	240.00 %
Total Interest and Dividend Income	\$ 73,106	\$ 36,633	\$ 36,473	99.56 %
Interest Expenses				
Deposits	\$ 27,585	\$ 9,914	\$ 17,671	178.24 %
Short-term borrowings	1,584	3,449	(1,865)	(54.07)%
Long-term debt	1,797	776	1,021	131.57 %
Total Interest Expenses	\$ 30,966	\$ 14,139	\$ 16,827	119.01 %
Taxable-equivalent adjustment	\$ 82	\$ 51	\$ 31	60.78 %
Tax Equivalent Net Interest Income	\$ 42,222	\$ 22,545	\$ 19,677	87.28 %

Average Balances and Yields

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

(Dollars in thousands)	Three Months Ended June 30,			Three Months Ended June 30,		
	2024			2023		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning assets						
Loans ^{(1), (2), (3)}						
Residential real estate	\$ 1,388,168	\$ 19,278	5.59 %	\$ 946,545	\$ 10,876	4.61 %
Commercial real estate	2,738,693	39,370	5.78	1,292,406	15,620	4.85
Commercial	216,809	3,926	7.28	137,554	2,177	6.35
Consumer	327,781	4,265	5.23	323,798	3,983	4.93
State and political	2,331	30	5.18	900	8	3.57
Credit Cards	8,378	201	9.65	—	—	—
Other	24,350	302	4.99	8,741	117	5.37
Total Loans	4,706,510	67,372	5.76	2,709,944	32,781	4.85
Investment securities:						
Taxable	705,421	5,230	2.97	645,178	3,729	2.31
Tax-exempt ⁽¹⁾	658	8	4.86	664	9	5.42
Interest-bearing deposits	47,372	578	4.91	13,397	170	5.09
Total earning assets	5,459,961	73,188	5.39 %	3,369,183	36,689	4.37 %
Cash and due from banks	45,141			29,923		
Other assets	391,854			225,935		
Allowance for credit losses	(57,628)			(28,730)		
Total assets	\$ 5,839,328			\$ 3,596,311		

	Three Months Ended June 30,			Three Months Ended June 30,		
	2024			2023		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-bearing liabilities						
Demand deposits	\$ 711,138	\$ 5,550	3.14 %	\$ 685,674	\$ 3,913	2.29 %
Money market and savings deposits	1,690,157	10,291	2.45	907,068	2,526	1.12
Brokered deposits	7,753	94	4.88	—	—	—
Certificates of deposit \$100,000 or more	758,211	7,581	4.02	312,367	2,337	3.00
Other time deposits	417,331	4,069	3.92	225,495	1,139	2.03
Interest-bearing deposits ⁽⁴⁾	3,584,590	27,585	3.10	2,130,604	9,915	1.87
Advances from FHLB - short-term	113,549	1,584	5.61	261,797	3,449	5.28
Advances from FHLB - long-term	30,220	346	4.60	—	—	—
Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") ⁽⁴⁾	72,680	1,451	8.03	43,185	776	7.21
Total interest-bearing liabilities	3,801,039	30,966	3.28 %	2,435,586	14,140	2.33 %
Noninterest-bearing deposits	1,480,384			778,058		
Accrued expenses and other liabilities	38,427			19,442		
Stockholders' equity	519,478			363,225		
Total liabilities and stockholders' equity	\$ 5,839,328			\$ 3,596,311		
Net interest income		\$ 42,222			\$ 22,549	
Net interest spread			2.11 %			2.04 %
Net interest margin			3.11 %			2.68 %
Cost of Funds			2.36 %			1.76 %
Cost of Deposits			2.19 %			1.37 %
Cost of Debt			6.28 %			5.56 %
Tax-equivalent adjustment						
Loans		\$ 80			\$ 51	
Investment securities		2			1	
Total		\$ 82			\$ 52	

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

(2) Average loan balances include nonaccrual loans.

(3) Interest income on loans includes accreted loan fees, net of costs and accretion of discounts on acquired loans, which are included in the yield calculations. There were \$4.5 million and \$0.3 million of accretion interest on loans for the three months ended June 30, 2024 and 2023, respectively.

(4) Interest expense on deposits and borrowing includes amortization of deposit premiums and amortization of borrowing fair value adjustment. There were \$(0.4) million and \$41,000 of amortization of deposits premium, and \$(0.2) million and \$(47,000) of amortization of borrowing fair value adjustment for the three months ended June 30, 2024 and 2023, respectively.

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

Three Months Ended June 30, 2024 Compared to the Three Months Ended June 30, 2023

	Volume	Due to Rate	Total
Interest income:			
Loan Portfolio			
Residential real estate	\$ 6,096	\$ 2,306	\$ 8,402
Commercial real estate	20,762	2,988	23,750
Commercial	1,431	318	1,749
Consumer	40	242	282
State and political	18	4	22
Credit Cards	201	—	201
Other	193	(8)	185
Taxable investment securities	436	1,065	1,501
Tax-exempt investment securities	—	(1)	(1)
Interest-bearing deposits	414	(6)	408
Total interest income	\$ 29,591	\$ 6,908	\$ 36,499
Interest-bearing liabilities:			
Interest-bearing demand deposits	\$ 188	\$ 1,449	\$ 1,637
Money market and savings deposits	4,765	3,000	7,765
Certificate of deposits	6,416	1,852	8,268
Advances from FHLB - Short-term	(2,080)	215	(1,865)
Subordinated debt	587	88	675
Total interest-bearing liabilities	\$ 10,222	\$ 6,604	\$ 16,826
Net change in net interest income	\$ 19,369	\$ 304	\$ 19,673

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

Net interest income was \$42.1 million for the second quarter of 2024, compared to \$41.1 million for the first quarter of 2024 and \$22.5 million for the second quarter of 2023. The increase in net interest income when compared to the first quarter of 2024 was primarily due to the increase in interest and fees on loans of \$1.5 million and interest and dividends on investment securities of \$0.8 million, partially offset by an increase in interest expense of \$1.0 million. The increase in net interest income when compared to the second quarter of 2023 was primarily due to the increase in interest and fees on loans of \$34.6 million, interest and dividends on investment securities of \$1.5 million and interest on deposits from other banks of \$0.4 million, coupled with a decrease in interest on short-term borrowings of \$1.9 million. These improvements were partially offset by the increase in interest on deposits of \$17.7 million and interest on long-term borrowings of \$1.0 million all significantly impacted by the merger with TCFC in the third quarter of 2023.

The Company's NIM increased slightly to 3.11% for the second quarter of 2024 from 3.08% for the first quarter of 2024 primarily due to the repricing of loans and securities at a greater rate than deposits. The Company's cost of funds was positively impacted during the second quarter due to a shift from interest-bearing to noninterest-bearing deposits. Average interest-bearing deposits decreased \$395.0 million which resulted in \$0.9 million less interest expense. The Company's NIM increased to 3.11% for the second quarter of 2024 from 2.68% for the second quarter of 2023. Comparing the second quarter of 2024 to the second quarter of 2023, the Company's interest-earning asset yields increased 102 basis points to 5.39% from 4.37%, while the cost of funds repriced at a slower pace resulting in an increase of 60 basis points to 2.36% from 1.76% for the same period.

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

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

Noninterest Income

Total noninterest income for the second quarter of 2024 was \$8.4 million, an increase of \$1.9 million from \$6.6 million for the first quarter of 2024 and an increase \$3.1 million from \$5.3 million for the second quarter of 2023. The increase from the first quarter of 2024 was primarily due to improved mortgage banking revenue. In addition, both Wye Financial Partners and the Mid-Maryland Title Company, Inc. have experienced improved revenue streams due to increased activity. The increase from the second quarter of 2023 was due to higher revenue among all revenue line items, a direct result of the merger with TCFC in the third quarter of 2023.

Noninterest Expense

Total noninterest expense of \$33.5 million for the second quarter of 2024 decreased \$3.2 million when compared to the first quarter of 2024 total non-interest expense of \$36.7 million and increased \$11.9 million when compared to the second quarter of 2023 total non-interest expense of \$21.6 million. The decrease in total non-interest expenses from the first quarter of 2024 was primarily due to credit card fraud loss of \$4.3 million in the first quarter, partially offset by an increase in salaries and wages of \$1.5 million. The increase in total non-interest expense from the second quarter of 2023 was primarily due to the operation of a larger branch network and employee base due to the merger with TCFC, which significantly impacted almost all expense line items.

Income Taxes

The Company reported income tax expense of \$3.8 million for the second quarter of 2024, and income tax expense of \$1.5 million for the second quarter of 2023. The effective tax rate for the second quarter of 2024 and 2023 was 25.1% and 27.1%, respectively. The decrease in the effective tax rate was due primarily to lower nondeductible expenses associated with merger activity.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2024 AND 2023

Summary of Financial Results

The Company reported net income for the six months ended June 30, 2024 of \$19.4 million or diluted earnings per share of \$0.58 compared to net income of \$10.5 million or diluted earnings per share of \$0.53 for the six months ended June 30, 2023. The Company's ROAA, Non-GAAP ROAA, ROACE and ROATCE were 0.67%, 0.92%, 7.54% and 13.08% for the six months ended June 30, 2024, respectively, compared to 0.59%, 0.71%, 5.83% and 8.57% for the six months ended June 30, 2023, respectively.

The increase to net income in the first six months of 2024 compared to the same period in 2023 was primarily due to the merger with TCFC, which resulted in higher net interest income and noninterest income, partially offset by a higher provision for credit losses and noninterest expenses. The increase in net interest income was impacted by higher average balances and yields earned on average earning assets, partially offset by higher average balances and rates paid on interest-bearing liabilities. The increase in provision for credit losses for 2024 was due to higher levels of reserves required by the Company's CECL model and higher net charge-offs. Almost all noninterest expense line items in 2024 increased as a result of the merger and the expanded operations of the newly combined Company.

(Dollars in thousands)	Six Months Ended June 30,		\$ Change	% Change
	2024	2023		
Interest and dividend income	\$ 144,245	\$ 71,695	\$ 72,550	101.19 %
Interest expenses	60,970	23,537	37,433	159.04 %
Net interest income	83,275	48,158	35,117	72.92 %
Provision for credit losses	2,488	1,880	608	32.34 %
Noninterest income	15,007	10,628	4,379	41.20 %
Noninterest expenses	70,197	42,501	27,696	65.17 %
Income before income taxes	25,597	14,405	11,192	77.70 %
Income tax (benefit) expense	6,179	3,930	2,249	57.23 %
Net income	\$ 19,418	\$ 10,475	\$ 8,943	85.37 %

Net Interest Income

As shown in the table below, tax-equivalent net interest income increased \$35.2 million to \$83.4 million for the six months ended June 30, 2024 compared to \$48.3 million for six months ended June 30, 2023. The increase in net interest income when compared to the prior period was primarily due to the increase in the average balance of loans of \$2.0 billion, or 75.9%, and an increase in net accretion income of \$6.7 million. Increases to net interest income were partially offset by increased total interest expense of \$37.4 million, or 159.0%, primarily due to increases in the cost of funds and in the average balance of interest-bearing deposits of \$1.6 billion, or 76.8%. All of the noted increases were significantly impacted by the merger.

(Dollars in thousands)	Six Months Ended June 30,		\$ Change	% Change
	2024	2023		
Interest and dividend income				
Loans, including fees	\$ 133,045	\$ 63,557	\$ 69,488	109.33 %
Interest and dividends on investment securities	9,662	7,805	1,857	23.79 %
Interest on deposits with banks	1,538	333	1,205	361.86 %
Total Interest and Dividend Income	\$ 144,245	\$ 71,695	\$ 72,550	101.19 %
Interest Expenses				
Deposits	\$ 56,081	\$ 17,195	\$ 38,886	226.15 %
Short-term borrowings	1,641	4,810	(3,169)	(65.88)%
Long-term debt	3,248	1,532	1,716	112.01 %
Total Interest Expenses	\$ 60,970	\$ 23,537	\$ 37,433	159.04 %
Taxable-equivalent adjustment	\$ 161	\$ 92	\$ 69	75.00 %
Tax Equivalent Net Interest Income	\$ 83,436	\$ 48,250	\$ 35,186	72.92 %

Average Balances and Yields

The following tables present the distribution of the average consolidated balance sheets, interest income/expense, and annualized yields earned and rates paid for the six months ended June 30, 2024 and 2023.

(Dollars in thousands)	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Earning assets						
Loans ^{(1), (2), (3)}						
Consumer real estate	\$ 1,374,902	\$ 37,770	5.52 %	\$ 914,351	\$ 21,383	4.72 %
Commercial real estate	2,730,646	77,974	5.74 %	1,286,199	30,793	4.83 %
Commercial	218,346	8,024	7.39 %	140,161	3,997	5.75 %
Consumer	328,450	8,537	5.23 %	310,736	7,257	4.71 %
State and political	1,902	46	4.86 %	939	17	3.65 %
Credit Cards	7,918	368	9.35 %	—	—	— %
Other	18,682	484	5.21 %	8,680	199	4.62 %
Total Loans	4,680,846	133,203	5.72 %	2,661,066	63,646	4.82 %
Investment securities:						
Taxable	680,042	9,650	2.84	649,329	7,793	2.40
Tax-exempt ⁽¹⁾	659	15	4.55	665	15	4.51
Federal funds sold	—	—	—	—	—	—
Interest-bearing deposits	62,324	1,538	4.96	13,622	333	4.93
Total earning assets	5,423,871	144,406	5.35 %	3,324,682	71,787	4.35 %
Cash and due from banks	47,320			29,266		
Other assets	393,439			226,989		
Allowance for credit losses	(57,554)			(29,364)		
Total assets	\$ 5,807,076			\$ 3,551,573		

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(Dollars in thousands)	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Interest-bearing liabilities						
Demand deposits	\$ 910,831	11,911	2.63 %	\$ 690,258	7,149	2.09 %
Money market and savings deposits	1,679,615	20,451	2.45	955,541	4,899	1.03
Brokered deposits	14,107	345	4.92	—	—	—
Certificates of deposit \$100,000 or more	760,211	15,256	4.04	277,096	3,413	2.48
Other time deposits	417,346	8,118	3.91	216,500	1,734	1.62
Interest-bearing deposits ⁽⁴⁾	3,782,110	56,081	2.98	2,139,395	17,195	1.62
Securities sold under retail repurchase agreements and federal funds purchased	—	—	—	—	—	—
Advances from FHLB - short-term	58,775	1,641	5.61	188,293	4,810	5.15
Advances from FHLB - long-term	15,110	346	4.60	—	—	—
Subordinated debt and Guaranteed preferred beneficial interest in junior subordinated debentures ("TRUPS") ⁽⁴⁾	72,549	2,902	8.04	43,147	1,532	7.16
Total interest-bearing liabilities	3,928,544	60,970	3.12 %	2,370,835	23,537	2.00 %
Noninterest-bearing deposits	1,321,705			798,994		
Accrued expenses and other liabilities	39,100			19,539		
Stockholders' equity	517,727			362,205		
Total liabilities and stockholders' equity	\$ 5,807,076			\$ 3,551,573		
Net interest income		\$ 83,436			\$ 48,250	
Net interest spread			2.23 %			2.35 %
Net interest margin			3.09 %			2.93 %
Cost of Funds			2.34 %			1.50 %
Cost of Deposits			2.21 %			1.18 %
Cost of Debt			6.71 %			5.53 %
Tax-equivalent adjustment						
Loans		\$ 158			\$ 89	
Investment securities		3			3	
Total		\$ 161			\$ 92	

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

(2) Average loan balances include nonaccrual loans.

(3) Interest income on loans includes accreted loan fees, net of costs and accretion of discounts on acquired loans, which are included in the yield calculations. There were \$8.7 million and \$0.7 million of accretion interest on loans for the six months ended June 30, 2024 and 2023, respectively.

(4) Interest expense on deposits and borrowing includes amortization of deposit premiums and amortization of borrowing fair value adjustment. There were \$(0.8) million and \$0.2 million of amortization of deposits premium, and \$(0.5) million and \$(0.1) million of amortization of borrowing fair value adjustment for the six months ended June 30, 2024 and 2023, respectively.

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

Six Months Ended June 30, 2024 Compared to the Six Months Ended June 30, 2023

	Volume	Due to Rate	Total
Interest income from earning assets:			
Loans			
Residential real estate	\$ 12,750	\$ 3,637	\$ 16,387
Commercial real estate	41,361	5,820	47,181
Commercial	2,884	1,143	4,027
Consumer	477	803	1,280
State and political	23	6	29
Credit Cards	368	—	368
Other	260	25	285
Taxable investment securities	493	1,364	1,857
Tax-exempt investment securities	—	—	—
Fed funds sold	—	—	—
Interest-bearing deposits	1,203	2	1,205
Total interest income	\$ 59,819	\$ 12,800	\$ 72,619
Interest-bearing liabilities:			
Interest-bearing demand deposits	2,908	1,854	4,762
Money market and savings deposits	8,805	6,747	15,552
Certificate of deposits	13,957	4,615	18,572
Securities sold under repurchase agreements and federal funds purchased	—	—	—
Advances from FHLB - Short-term	(3,600)	431	(3,169)
Advances from FHLB - Long-term	346	—	346
Subordinated debt	1,181	189	1,370
Total interest-bearing liabilities	\$ 23,597	\$ 13,836	\$ 37,433
Net change in net interest income	\$ 36,222	\$ (1,036)	\$ 35,186

The Company's net interest margin increased to 3.09% for 2024 from 2.93% for 2023, primarily due to recent loan growth and repricing of earning assets, higher net accretion due to the merger, a positive shift in lower cost deposits and an overall stabilized funding base. The increase in the average balance and yields earned on average earning assets of \$2.1 billion and 100 bps, respectively, were partially offset by increases in the average balance and rates paid on interest-bearing deposits of \$1.6 billion and 136 bps, respectively. The average balance on noninterest-bearing deposits increased \$522.7 million, or 65.4%. Net accretion income impacted the increased net interest margin by 27 bps and five bps for the six months ended June 30, 2024 and 2023, respectively. Until the balance sheet restructuring in the third quarter of 2023, the net interest margin experienced compression due to the Company's liability sensitive position, deposit rate pressures and significantly higher FHLB borrowing rates.

Provision for Credit Losses and Allowance for Credit Losses

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

Noninterest Income

Total noninterest income for the six months ended June 30, 2024 increased \$4.4 million, or 41.2%, when compared to the same period in 2023. The increase in noninterest income was experienced among almost all revenue line items. These increases were attributable to the increased size and scale of the Company following the merger with TCFC as well as strategic initiatives to improve business line operations and profitability.

Noninterest Expense

Total noninterest expense for the six months ended June 30, 2024 increased \$27.7 million, or 65.2%, when compared to the same period in 2023. Almost all noninterest expense line items increased as a result of the merger with TCFC and the expanded operations of the newly combined Company. There were no merger-related expenses for the six months ended June 30, 2024, compared to \$1.9 million for the six months ended June 30, 2023. The Company continues to focus on streamlining processes to unlock operational efficiencies and reduce overall noninterest expenses.

Income Taxes

The Company reported income tax expense of \$6.2 million for the six months ended June 30, 2024, and income tax expense of \$3.9 million for the six months ended June 30, 2023. The effective tax rate was 24.1% for the six months ended June 30, 2024, and 27.3% for the six months ended June 30, 2023. The decrease in the effective tax rate in 2024 was due to a re-assessment of year-end 2023 tax deductions during the first quarter of 2024 which presented favorable differences and lower nondeductible expenses associated with merger activity. The Company's consolidated deferred tax assets, net of deferred tax liabilities and valuation allowances, totaled \$36.1 million at June 30, 2024, representing an aggregate rate of approximately 25.5% of the Company's temporary federal and state tax differences. For the year-to-date period in 2024, the Company's gross federal and state net operating loss carryovers ("NOL's") that were recorded in 2023 have been reduced by approximately \$20.8 million and \$19.5 million, respectively, resulting from estimated utilization and true-ups of 2023 tax estimates. As of June 30, 2024, the Company's estimated remaining gross NOL's expected to be realized for federal and state income tax purposes were approximately \$10.3 million and \$5.5 million, respectively. These NOL's are available to offset future taxable income of the Company.

ANALYSIS OF FINANCIAL CONDITION

Balance Sheet Summary

Total assets were \$5.9 billion at June 30, 2024, a decrease of \$144.6 million, or 2.4%, when compared to \$6.0 billion at December 31, 2023. The aggregate decrease was primarily due to decreases in cash and cash equivalents of \$233.5 million and investment securities held to maturity (“HTM”) of \$13.8 million partially offset by an increase in investment securities available for sale (“AFS”) of \$21.1 million and loans held for investment of \$64.7 million. The ratio of the ACL on loans to total loans were 1.24% and 1.24% at June 30, 2024 and December 31, 2023, respectively.

Cash and Cash Equivalents

Cash and cash equivalents totaled \$138.9 million at June 30, 2024, compared to \$372.4 million at December 31, 2023. Total cash and cash equivalents fluctuate due to transactions in process and other liquidity demands. Management believes liquidity needs are satisfied by the current balance of cash and cash equivalents, readily available access to traditional and wholesale funding sources, and the portions of the investment and loan portfolios that mature within one year.

Investment Securities

The investment portfolio includes debt and equity securities. Securities are classified as either AFS or HTM. AFS investment securities are stated at estimated fair value based on market prices. They represent securities which may be sold as part of the asset/liability management strategy or in response to changing interest rates. Net unrealized holding gains and losses on these securities are reported net of related income taxes as accumulated other comprehensive income (loss), a separate component of stockholders’ equity. Investment securities in the HTM category are stated at cost adjusted for amortization of premiums and accretion of discounts and the ACL. We have the intent and ability to hold such securities until maturity. At June 30, 2024, 20.9% of the portfolio of debt securities was classified as AFS and 79.1% was classified as HTM, compared to 17.7% and 82.3% respectively, at December 31, 2023. See Note 3 – “Investment Securities”, in the Notes to Consolidated Financial Statements for additional details on the composition of our investment portfolio.

Investment securities, including restricted stock and equity securities, totaled \$658.6 million at June 30, 2024, a \$11.2 million, or 1.7%, increase compared to \$647.4 million at December 31, 2023.

At June 30, 2024, AFS securities, carried at fair value, totaled \$131.6 million compared to \$110.5 million at December 31, 2023. At June 30, 2024, AFS securities consisted of 80.2% mortgage-backed, 15.3% U.S. Government agencies and 4.5% corporate bonds, compared to 76.0%, 18.5% and 5.5%, respectively, at year-end 2023.

At June 30, 2024, HTM securities, carried at amortized cost, totaled \$499.5 million compared to \$513.3 million at December 31, 2023. At June 30, 2024, HTM securities consisted of 68.9% mortgage-backed, 28.7% U.S. Government agencies, 2.1% other debt securities, and 0.3% states and political subdivisions, compared to 69.7%, 27.9%, 2.0% and 0.3%, respectively, at year-end 2023.

At June 30, 2024 and December 31, 2023, 97.2% and 97.1%, respectively, of the Bank’s carrying value of its investment portfolio consisted of securities issued or guaranteed by U.S. Government agencies or government-sponsored agencies.

Loans

Loans Held for Sale

The Bank originates residential mortgage loans for sale on the secondary market, which are recorded at fair value. At June 30, 2024 and December 31, 2023, the fair value of loans held for sale amounted to \$27.8 million and \$8.8 million, respectively. The Bank makes certain representations to purchasers in the sale of the mortgage loans related to loan ownership, loan compliance and legality, and accurate documentation. If a loan is found to be out of compliance with any of the representations subsequent to the date of purchase, the Bank may be required to repurchase the loan or indemnify the purchaser.

Loans Held for Investment

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

(Dollars in thousands)	June 30, 2024	%	December 31, 2023	%	\$ Change	% Change
Construction	\$ 327,875	6.97 %	\$ 299,000	6.40 %	\$ 28,875	9.66 %
Residential real estate	1,539,591	32.72 %	1,490,438	32.10 %	49,153	3.30 %
Commercial real estate	2,287,497	48.60 %	2,286,154	49.30 %	1,343	0.06 %
Commercial	218,987	4.65 %	229,939	5.00 %	(10,952)	(4.76)%
Consumer	324,479	6.90 %	328,896	7.10 %	(4,417)	(1.34)%
Credit Cards	7,308	0.16 %	6,583	0.10 %	725	11.01 %
Total loans	4,705,737	100.00 %	4,641,010	100.00 %	64,727	1.39 %
Allowance for credit losses on loans	(58,478)		(57,351)		(1,127)	1.97 %
Total loans, net	\$ 4,647,259		\$ 4,583,659		\$ 63,600	1.39 %

Our loan portfolio has a CRE concentration, which is generally defined as a combination of certain construction and CRE loans. The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in CRE lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential CRE concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent 100% or more of an institution's total risk-based capital; or (2) total non-owner occupied CRE loans representing 300% or more of the institution's total risk-based capital and the institution's non-owner occupied CRE loan portfolio (including construction) has increased 50% or more during the prior 36 months are identified as having potential CRE concentration risk. Institutions which are deemed to have concentrations in CRE estate lending are expected to employ heightened levels of risk management with respect to their CRE portfolios, and may be required to hold higher levels of capital. The Bank has a concentration in CRE loans, and has experienced significant growth in its CRE portfolio in recent years and was further impacted with its acquisition of CBTC in the third quarter of 2023. Non-owner occupied CRE loans as a percentage of the Bank's Tier 1 Capital + ACL at June 30, 2024 and December 31, 2023 were \$2.1 billion or 368.7% and \$2.0 billion or 382.6%, respectively. Construction loans as a percentage of the Bank's Tier 1 Capital + ACL at June 30, 2024 and December 31, 2023 were \$327.9 million or 58.6% and \$299.0 million or 56.7%, respectively.

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

Non-Owner Occupied CRE Loans

(dollars in thousands)	June 30, 2024			
	Amount	Average Loan Size	% of Non-Owner Occupied CRE Loans	% of Total Portfolio Loans, Gross
Loan Type:				
Retail	\$ 449,557	\$ 2,417	21.8 %	9.5 %
Office/Office Condo	367,377	1,537	17.8 %	7.8 %
Multi-Family (5+ Units)	268,015	2,310	13.0 %	5.7 %
Motel/Hotel	214,410	4,123	10.4 %	4.5 %
Industrial/Warehouse	222,320	1,577	10.8 %	4.7 %
Commercial - Improved	146,411	1,181	7.1 %	3.1 %
Other ⁽¹⁾	394,913	518	19.1 %	8.3 %
Total non-owner occupied CRE loans ⁽²⁾	\$ 2,063,003	\$ 1,273	100.0 %	43.6 %
Total Portfolio loans, gross ⁽³⁾	\$ 4,733,566			

(1) Other non-owner occupied CRE loans include mini-storage loans of \$83.0 million, restaurant loans of \$46.2 million, and other loans of \$265.7 million.

(2) The balances for our non-owner occupied CRE portfolio as of June 30, 2024, as presented in this table, coincide with our internal evaluation of risk for the purpose of monitoring loan concentrations in accordance with internal and regulatory guidelines. Within the non-owner occupied balances presented in this table, the Company has included certain loans secured by multi-family residential properties and other investor owned 1-4 family residential properties that are reported in the residential real estate caption in other areas of this report. As such, the total balance of loans presented in this table when added to the balance of the table presented below detailing owner occupied CRE may not reconcile to the CRE caption included in other tables and footnotes.

(3) Includes loans held for sale of \$27.8 million.

Owner Occupied CRE Loans

(dollars in thousands)	June 30, 2024			
	Amount	Average Loan Size	% of Owner Occupied CRE Loans	% of Total Portfolio Loans, Gross
Loan Type:				
Office/Office Condo	\$ 137,492	\$ 515	18.2 %	2.9 %
Industrial/Warehouse	111,227	666	14.8 %	2.3 %
Church	70,803	932	9.4 %	1.5 %
Retail	63,216	580	8.4 %	1.3 %
Commercial - Improved	166,355	962	22.1 %	3.5 %
Other ⁽¹⁾	204,980	1,220	27.2 %	4.3 %
Total owner occupied CRE loans	\$ 754,073	\$ 785	100.0 %	15.8 %
Total Portfolio loans, gross ⁽²⁾	\$ 4,733,566			

(1) Other owner occupied CRE loans include restaurant loans of \$60.4 million, marine/boat slips of \$59.7 million, fire/CMS building loans of \$41.3 million and other loans of \$43.6 million.

(2) Includes loans held for sale of \$27.8 million.

Office CRE Portfolio

The Bank's office CRE loan portfolio, which includes owner occupied and non-owner occupied CRE loans, was \$504.9 million or 10.7% of total loans of \$4.7 billion at June 30, 2024. The Bank's office CRE loan portfolio included \$141.1 million or 28.0% of the total with medical tenants and \$72.9 million or 14.4% of the total with government or government contractor tenants. There were 507 loans in the office CRE portfolio with an average and median loan size of \$1.0 million and \$0.4 million, respectively. Loan to Value ("LTV") estimates are less than 50% for \$169.2 million or 33.5% of the office CRE portfolio and greater than 80% for \$16.6 million or 3.3% of the office CRE portfolio. LTV collateral values are based on the most recent appraisal, which varies from the initial loan boarding to interim credit reviews.

The Bank had 18 office CRE loans totaling \$164.1 million that were greater than \$5.0 million at June 30, 2024, compared to 24 office CRE loans totaling \$189.8 million at December 31, 2023. The decrease in this portfolio segment was the result of normal amortization and two large loan payoffs in the second quarter. For the office CRE portfolio, at June 30, 2024, the average loan debt-service coverage ratio was 2.5x and average LTV was 51.0%. Of the office CRE portfolio balance, 74% is secured by properties in rural or suburban areas with limited exposure to metropolitan cities and 97% are secured by properties with five stories or less. Of the office CRE loans, \$5.9 million will mature and \$4.1 million will reprice prior to December 31, 2024. Of the office CRE loans, \$2.1 million are special mention or substandard.

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

(dollars in thousands,)	June 30, 2024	December 31, 2023
ASSET QUALITY		
Total portfolio loans	\$ 4,705,737	\$ 4,641,010
Classified Assets ⁽¹⁾	19,148	14,851
Allowance for credit losses on loans	(58,478)	(57,351)
Past due loans - 30 to 89 days	8,427	10,853
Accruing past due loans >= 90 days	1,015	738
Total past due (delinquency) loans	9,442	11,591
Non-accrual loans	14,837	12,784
Accruing borrowers experiencing financial difficulty ("BEFD") modifications ⁽²⁾	—	153
Other real estate owned ("OREO") and Repossessed Property	1,739	179
Non-accrual loans, OREO, Repossessed Property and BEFD modifications	16,576	13,116
ASSET QUALITY RATIOS		
Classified assets to total assets ⁽¹⁾	0.33 %	0.25 %
Classified assets to risk-based capital ⁽¹⁾	3.37 %	2.75 %
Allowance for credit losses on loans to total portfolio loans	1.24 %	1.24 %
Allowance for credit losses on loans to non-accrual loans	394.14 %	448.62 %
Past due loans - 30 to 89 days to total portfolio loans	0.18 %	0.23 %
Past due loans >=90 days and non-accrual to total loans	0.34 %	0.29 %
Total past due (delinquency) and non-accrual to total portfolio loans	0.52 %	0.53 %
Non-accrual loans to total portfolio loans	0.32 %	0.28 %
Non-accrual loans and BEFD modifications to total loans	0.32 %	0.28 %
Non-accrual loans OREO and repossessed property to total assets	0.28 %	0.22 %
Non-accrual loans OREO and repossessed property to total portfolio loans, OREO and repossessed property	0.35 %	0.28 %
Non-accrual loans, OREO, repossessed property and BEFD modifications to total assets	0.28 %	0.22 %

(1) Classified assets are substandard loans and OREO and other repossessed property. Classified assets do not include special mention loans.

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

Allowance for Credit Losses on Loans

The ACL was \$58.5 million at June 30, 2024, \$57.4 million at December 31, 2023 and \$29.0 million at June 30, 2023. There were net charge-offs of \$0.9 million for the second quarter of 2024, compared to net charge-offs of \$0.6 million for the first quarter of 2024 and net charge-offs of \$50,000 for the second quarter of 2023. The ratio of annualized net charge-offs to average loans was 0.08% for the second quarter of 2024, compared to annualized net charge-offs of 0.05% for the first quarter of 2024 and annualized net charge-offs of 0.01% for the second quarter of 2023. Management remains focused on its efforts to dispose of problem loans and to prudently charge-off nonperforming loans to enable the Company to maintain overall credit quality. The ACL on loans as a percentage of period-end loans was 1.24% at June 30, 2024 and 1.24% at December 31, 2023.

The following tables present a summary of the net charge-off activity in the ACL at or for the three and six months ended June 30, 2024 and 2023.

(Dollars in thousands)	For the Three Months Ended					
	June 30, 2024			June 30, 2023		
	Net (Charge-offs) Recoveries	Average Balance ⁽¹⁾	%	Net (Charge-offs) Recoveries	Average Balance ⁽¹⁾	%
Construction	\$ 4	\$ 315,820	(0.01)%	\$ 4	\$ 228,689	(0.01)%
Residential real estate	2	1,534,886	- %	3	902,353	— %
Commercial real estate	—	2,280,743	- %	—	1,109,044	— %
Commercial	(21)	226,292	0.04 %	1	138,067	— %
Consumer	(793)	325,298	0.98 %	(58)	324,454	0.07 %
Credit Cards	(78)	3,156	9.94 %	—	—	— %
	<u>\$ (886)</u>	<u>\$ 4,686,195</u>	<u>0.08 %</u>	<u>\$ (50)</u>	<u>\$ 2,702,607</u>	<u>0.01 %</u>
Allowance for credit losses	—	(58,478)	- %	—	(28,730)	— %
Total net charge-off and average loans	<u>\$ (886)</u>	<u>\$ 4,627,717</u>	<u>0.08 %</u>	<u>\$ (50)</u>	<u>\$ 2,673,877</u>	<u>0.01 %</u>

(1) Excludes Loans Held for Sale

(Dollars in thousands)	For Six Months Ended June 30, 2024					
	June 30, 2024			June 30, 2023		
	Net (charge-offs) recoveries	Average balances	%	Net (charge-offs) recoveries	Average balances	%
Construction	\$ (6)	\$ 304,307	— %	\$ 7	\$ 238,540	(0.01)%
Residential real estate	3	1,523,791	- %	34	869,069	(0.01)%
Commercial real estate	—	2,280,227	- %	—	1,094,387	- %
Commercial	(20)	229,059	0.02 %	8	139,975	(0.01)%
Consumer	(1,242)	325,264	0.77 %	(119)	312,877	0.08 %
Credit cards	(186)	3,174	11.78 %	—	—	- %
	<u>\$ (1,451)</u>	<u>\$ 4,665,822</u>	<u>0.06 %</u>	<u>\$ (70)</u>	<u>\$ 2,654,848</u>	<u>0.01 %</u>
Allowance for credit losses	—	(58,478)	- %	—	(29,014)	— %
Total net charge-off and average loans	<u>\$ (1,451)</u>	<u>\$ 4,607,344</u>	<u>0.06 %</u>	<u>\$ (70)</u>	<u>\$ 2,625,834</u>	<u>0.01 %</u>

Nonperforming Assets

Classified assets increased \$4.3 million to \$19.1 million or 0.33% of total assets at June 30, 2024 from \$14.9 million or 0.25% of total assets at December 31, 2023. Classified assets are substandard loans, repossessed properties and OREO. The increase was primarily due to increases in OREO and repossessed properties of \$1.6 million and \$2.7 million in substandard loans.

As shown in the following table, nonperforming assets were \$17.0 million or 0.29% of total assets at June 30, 2024 compared to \$13.7 million or 0.23% of total assets at December 31, 2023. The balance of nonperforming assets increased primarily due to increases in nonaccrual loans of \$2.1 million and OREO of \$1.6 million, partially offset by a decrease in loans 90 days past due and still accruing of \$0.3 million.

The following table summarizes our nonperforming assets at June 30, 2024 and December 31, 2023.

(Dollars in thousands)	June 30, 2024	December 31, 2023
Nonperforming assets		
Nonaccrual loans	\$ 14,837	\$ 12,784
Total loans 90 days or more past due and still accruing	414	738
Other real estate owned and repossessed property	1,739	179
Total nonperforming assets	<u>\$ 16,990</u>	<u>\$ 13,701</u>
As a percent of total loans:		
Nonaccrual loans	0.32 %	0.28 %
As a percent of total loans, other real estate owned and repossessed property:		
Nonperforming assets	0.36 %	0.30 %
As a percent of total assets:		
Nonaccrual loans	0.25 %	0.21 %
Nonperforming assets	0.29 %	0.23 %

Deposits

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

(dollars in thousands)	June 30, 2024		December 31, 2023		\$ Change	% Change
	Balance	%	Balance	%		
Noninterest-bearing demand	\$ 1,587,252	30.83 %	\$ 1,258,037	23.36 %	\$ 329,215	26.17 %
Interest-bearing:						
Demand	658,512	12.79 %	1,165,546	21.64 %	(507,034)	(43.50)%
Money market deposits	1,337,274	25.97 %	1,430,603	26.56 %	(93,329)	(6.52)%
Savings	352,069	6.84 %	347,324	6.45 %	4,745	1.37 %
Certificates of deposit	1,213,778	23.57 %	1,184,610	21.99 %	29,168	2.46 %
Total interest-bearing	3,561,633	69.17 %	4,128,083	76.64 %	(566,450)	(13.72)%
Total Deposits	\$ 5,148,885	100.00 %	\$ 5,386,120	100.00 %	\$ (237,235)	(4.40)%

Total deposits decreased \$237.2 million, or 4.4%, to \$5.1 billion at June 30, 2024 when compared to December 31, 2023. The decrease in total deposits was primarily due to a decrease in demand deposits of \$507.0 million, and money market and savings of \$88.6 million. The decrease in deposits is attributable to seasonal municipal runoff and a decrease in interest rate-sensitive cannabis-related deposits. The increase in noninterest-bearing deposits was significantly impacted by a transfer of \$399.4 million of demand deposits which carried an average rate of four bps during the second quarter of 2024.

Total estimated uninsured deposits were \$0.9 billion or 18.4% of total deposits at June 30, 2024 and \$1.0 billion or 19.5% of total deposits at December 31, 2023. At June 30, 2024, there were \$129.5 million included in uninsured deposits that the Bank secured using the market value of pledged collateral. The Bank's uninsured deposits, excluding the market value of pledged collateral, at June 30, 2024 were \$819.4 million or 15.9% of total deposits.

The Company does not consider reciprocal deposits to be brokered as reciprocal deposits are used to maximize FDIC insurance available to our customers. During 2018, revisions to the Federal Deposit Insurance Act determined that reciprocal deposits are core deposits and are not considered brokered deposits unless they exceed 20% of the Bank's total liabilities of \$5.3 billion or \$5.0 billion. Reciprocal deposits were \$1.2 billion at June 30, 2024 compared to \$1.3 billion at December 31, 2023. Reciprocal deposits as a percentage of the Bank's liabilities at June 30, 2024 and December 31, 2023 were 22.9% and 24%, respectively. For call reporting purposes, there were \$154.3 million and \$204.8 million of reciprocal deposits that were considered brokered at June 30, 2024 and December 31, 2023, respectively.

The Bank is required to monitor large deposit relationships and concentration risks in accordance with regulatory guidance. This includes monitoring deposit concentrations and maintaining fund management policies and strategies that take into account potentially volatile concentrations and significant deposits that mature simultaneously. Regulatory guidance defines a large depositor as a customer or entity that owns or controls 2% or more of the Bank's total deposits. At June 30, 2024, the Bank had three local municipal customer deposit relationships that exceeded 2% of total deposits, totaling \$347.7 million, which represented 6.7% of total deposits of \$5.2 billion. At December 31, 2023, there were four customer deposit relationships that exceeded 2% of total deposits, totaling \$598.5 million, which represented 11.1% of total deposits of \$5.4 billion.

Wholesale Funding - Short-Term Borrowings and Brokered Deposits

The Company had short-term borrowings as of June 30, 2024 of \$31.0 million, compared to \$0 as of December 31, 2023. The increase was due to the purchase of short-term advances with FHLB to offset seasonality in our municipal and cannabis related deposits. Other short-term borrowings may consist of overnight borrowing from correspondent banks or securities sold under agreements to repurchase, primarily with commercial depositors. Short-term advances are defined as those with original maturities of one year or less. At June 30, 2024 and December 31, 2023, the Company had no securities sold under agreements to repurchase or overnight borrowings from correspondent banks.

The Company's wholesale funding increased \$36.5 million, which includes FHLB advances and brokered deposits, from \$44.5 million in brokered deposits at December 31, 2023 to \$81.0 million in FHLB advances at June 30, 2024. For FDIC call reporting purposes, reciprocal deposits are classified as brokered deposits when they exceed 20% of a bank's liabilities or \$5.0 billion. Reciprocal deposit balances considered brokered were excluded from the Company's measurement of wholesale funding.

Long-Term Debt

The Company occasionally borrows from the FHLB to meet longer term liquidity needs, specifically to fund loan growth when liquidity from deposit growth is not sufficient. There were long-term borrowings from the FHLB outstanding at June 30, 2024 of \$50.0 million and \$0 at December 31, 2023. This increase was due to a purchase of \$50 million in FHLB advances for 18-months at 4.79% which was lower than short-term FHLB advances of 5.57%. These advances have the option to be called by FHLB at any time and mature on November 7, 2025.

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

As a result of the merger with Severn Bancorp, Inc., effective October 31, 2021, the Company acquired Junior Subordinated Debt Securities due in 2035 which had an outstanding principal balance of \$20.6 million. The debt balance of \$18.7 million at June 30, 2024 and \$18.6 million at December 31, 2023 were presented net of fair value adjustments of \$1.9 million and \$2.0 million, respectively.

Additionally, as a result of the TCFC merger, the Company acquired Junior Subordinated Debt Securities which had an outstanding principal balance of \$12.0 million. The debt balance of \$10.6 million at June 30, 2024 was presented net of a fair value adjustment of \$1.4 million. In addition, the Company acquired 4.75% fixed-to-floating rate subordinated notes with a carrying value of \$19.5 million at June 30, 2024. The notes balance of \$18.6 million at June 30, 2024 was presented net of fair value adjustment of \$0.9 million.

Stockholders' Equity

(Dollars in thousands)	June 30, 2024	December 31, 2023	\$ Change	% Change
Common Stock at par of \$0.01	\$ 333	\$ 332	\$ 1	0.30 %
Additional paid in capital	356,994	356,007	987	0.28 %
Retained earnings	173,716	162,290	11,426	7.04 %
Accumulated other comprehensive loss	(8,260)	(7,494)	(766)	10.22 %
Total Stockholders' Equity	\$ 522,783	\$ 511,135	\$ 11,648	2.28 %

Total stockholders' equity increased \$11.6 million, or 2.28%, to \$522.8 million at June 30, 2024 when compared to December 31, 2023 primarily due to a \$19.4 million of net income partially offset by dividends paid of \$8.0 million.

Liquidity and Capital Resources

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

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

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

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

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

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

We derive liquidity through increased customer deposits, non-reinvestment of the cash flow from the investment portfolio, loan repayments, borrowings and income from earning assets. As seen in the Consolidated Statements of Cash Flows, the net decrease in cash and cash equivalents was \$233.5 million for the first six months of 2024 compared to a decrease of \$9.7 million for the first six months of 2023. The decrease in cash and cash equivalents in the second quarter of 2024 was mainly due to the decrease of \$567.2 million in interest-bearing deposits.

To the extent that deposits are not adequate to fund customer loan demand, liquidity needs can be met in the short-term fund markets. At June 30, 2024, the Bank had approximately \$1.0 billion of available liquidity including: \$138.9 million in cash and cash equivalents, \$321.9 million in unpledged securities, \$734.5 million in secured borrowing capacity at the FHLB of Atlanta offset by FHLB advances and letter of credit of \$81.0 million and \$81.1 million, respectively. The Bank has arrangements with other correspondent banks whereby it has \$95.0 million available in federal funds lines of credit and a reverse repurchase agreement available to meet any short-term needs which may not otherwise be funded by the Bank's portfolio of readily marketable investments that can be converted to cash. Through the FHLB of Atlanta, the Bank had available lendable collateral of approximately \$734.5 million and \$745.1 million at June 30, 2024 and December 31, 2023, respectively. The Bank has pledged, under a blanket lien, all qualifying residential and commercial real estate loans under borrowing agreements with the FHLB of Atlanta.

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

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

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

June 30, 2024	Tier 1 leverage ratio	Common Equity Tier 1 ratio	Tier 1 risk-based capital ratio	Total risk-based capital ratio
Shore Bancshares, Inc.	8.07 %	9.06 %	9.67 %	11.82 %
Shore United Bank	8.71 %	10.45 %	10.45 %	11.69 %

December 31, 2023	Tier 1 leverage ratio	Common Equity Tier 1 ratio	Tier 1 risk-based capital ratio	Total risk-based capital ratio
Shore Bancshares, Inc.	7.74 %	8.69 %	9.31 %	11.48 %
Shore United Bank	8.33 %	10.02 %	10.02 %	11.27 %

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

USE OF NON-GAAP FINANCIAL MEASURES

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

RECONCILIATION OF NON-GAAP MEASURES (UNAUDITED)

Reconciliation of GAAP total assets, common equity, common equity to assets and book value to non-GAAP tangible assets, tangible common equity, tangible common equity to tangible assets and tangible book value.

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

(dollars in thousands, except per share amounts)	June 30, 2024	December 31, 2023	June 30, 2023
Total assets	\$ 5,864,017	\$ 6,010,918	\$ 3,641,631
Less: intangible assets			
Goodwill	63,266	63,266	63,266
Core deposit intangibles	42,945	48,090	4,671
Total intangible assets	106,211	111,356	67,937
Tangible assets	\$ 5,757,806	\$ 5,899,562	\$ 3,573,694
Total common equity	\$ 522,783	\$ 511,135	\$ 363,140
Less: intangible assets	106,211	111,356	67,937
Tangible common equity	\$ 416,572	\$ 399,779	\$ 295,203
Common shares outstanding at end of period	33,214,522	33,161,532	19,907,290
Common equity to assets	8.92 %	8.50 %	9.97 %
Tangible common equity to tangible assets	7.23 %	6.78 %	8.26 %
Common book value per share	\$ 15.74	\$ 15.41	\$ 18.24
Tangible common book value per share	\$ 12.54	\$ 12.06	\$ 14.83

Return on Average Common Equity (“ROACE”)

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

(dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (as reported)	\$ 11,234	\$ 4,018	\$ 19,418	\$ 10,475
ROACE	8.70 %	4.49 %	7.54 %	5.83 %
Average Equity	\$ 519,478	\$ 363,225	\$ 517,727	\$ 362,205

Return on Average Tangible Common Equity (“ROATCE”)

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

(dollars in thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net income (as reported)	\$ 11,234	\$ 4,018	\$ 19,418	\$ 10,475
Merger and acquisition costs (net of tax)	—	872	—	1,373
Core deposit intangible amortization (net of tax)	1,924	317	3,903	637
Net earnings applicable to common stockholders	\$ 13,158	\$ 5,207	\$ 23,321	\$ 12,485
ROATCE	12.85 %	7.16 %	11.47 %	8.57 %
Average equity	\$ 519,478	\$ 363,225	\$ 517,727	\$ 362,205
Less: Average goodwill and core deposit intangible	(107,594)	(68,172)	(108,881)	(68,388)
Average Tangible Common Equity	\$ 411,884	\$ 295,053	\$ 408,846	\$ 293,817

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 Part II, Item 7A of the 2023 Annual Report under the caption “Quantitative and Qualitative Disclosures About Market Risk”. Management recognizes that recent increases in interest rates have had an impact on the Company’s market risk. The procedures used to evaluate and mitigate these risks remain unchanged, and we continue to monitor our actual and simulated sensitivity positions since December 31, 2023.

Item 4 – Controls and Procedures.

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

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

Material Weaknesses in Internal Control Over Financial Reporting

Management assessed the Company’s system of internal control over financial reporting as of June 30, 2024. This assessment was conducted based on the Committee of Sponsoring Organizations (“COSO”) of the Treadway Commission “Internal Control – Integrated Framework (2013).” Based on this assessment, management has concluded that the Company’s internal control over financial reporting was not effective as of June 30, 2024 due to the material weaknesses identified below.

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

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

Management previously disclosed a material weakness in relation to deferred income taxes discussed in Part I, Item 4 of the Company’s Form 10-Q/A for the quarter ended September 30, 2023, which has been fully remediated as reported in Part I, Item 4 of the Company’s Form 10-Q for the quarter ended March 31, 2024. Management previously disclosed another material weakness associated with ineffective input review controls relating to specific aspects of the Company’s ACL model discussed in Part II, Item 9A of the 2023 Annual Report. Management continues to follow its remediation plan with respect to the review of controls related to the allowance for credit losses.

Remediation Plan to Address the Material Weaknesses

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

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

The Company is evaluating whether to sell and exit the credit card issuer program or to retain the portfolio and outsource the management of the opening of new accounts and ongoing transaction monitoring to an experienced third-party. In the event that the Company continues

the credit card program, it will need to establish controls to address and mitigate this material weakness. We expect that the remediation of the online credit card account opening material weakness will be completed prior to the end of 2024.

Specifically in relation to the allowance for credit losses, management has continued to follow the remediation plan outlined in the 2023 Annual Report. This plan includes compiling a detailed inventory of significant inputs to the allowance for credit losses calculation and, reevaluating the relevant SOX control design and operation to ensure all significant inputs to the allowance for credit losses calculation are recorded timely and accurately. In addition, management expects to conduct a detailed data audit to effectively ensure the completeness and accuracy of select inputs to the allowance for credit losses calculation. We expect that the allowance for credit losses material weakness will be fully remediated by the end of 2024.

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

Changes in Internal Control Over Financial Reporting

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

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

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

Item 1A – Risk Factors

There have been no material changes to the risk factors as previously disclosed under Item 1A in our 2023 Annual Report, our Quarterly Report on Form 10-Q for the first quarter of 2024 and those referenced in other reports on file with the SEC.

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

There were no repurchases or unregistered sales of the Company's common stock, par value \$0.01 per share, during the quarter-to-date period ended June 30, 2024.

Item 3 – Defaults Upon Senior Securities

None

Item 4 – Mine Safety Disclosures

Not applicable

Item 5 – Other Information

Rule 10b5-1 Trading Plans

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

Item 6 – Exhibits.

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

SIGNATURES

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

SHORE BANCSHARES, INC.

Date: August 9, 2024

By: /s/ James M. Burke

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

Date: August 9, 2024

By: /s/ Todd L. Capitani

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

SHORE BANCSHARES, INC.
SECOND AMENDED AND RESTATED BY-LAWS
(As of July 1, 2023)

ARTICLE I
STOCKHOLDERS

SECTION 1. Annual Meeting. A meeting of the stockholders of the Corporation for the election of directors and for the transaction of any other business of the Corporation shall be held annually at such date and time as the Board of Directors may determine.

SECTION 2. Special Meetings. Special meetings of the stockholders may be called at any time for any purpose or purposes by the Chairman, the Vice Chairman, the President, or by a majority of the Board of Directors. Subject to the procedures set forth in Article II, Section 4 and this Section, special meetings of the stockholders shall be called by the Secretary upon the request in writing of holders of a majority of all the shares outstanding and entitled to vote on the business to be transacted at such meeting. Such request shall state the purpose or purposes of the meeting and the matters proposed to be acted upon at it. The Secretary shall provide an estimate of the cost of preparing and mailing and, upon payment of such cost; the notice of the meeting shall be mailed by the Corporation. Business transacted at all special meetings of stockholders shall be confined to the purpose or purposes stated in the notice of the meeting. The Board of Directors shall have the sole power to fix the date and time of the special meeting. Nominations of persons for election to the Board of Directors and the proposal of business to be considered by the stockholders may be made at a special meeting of stockholders (a) only pursuant to the Corporation's notice of meeting and, (b) in the case of nominations of persons for election to the Board of Directors, (i) by or at the direction of the Board of Directors or (ii) by any stockholder of the Corporation (A) who was a stockholder of record at the time of giving notice provided for in Article II, Section 4, (B) who is entitled to vote at the meeting and (C) who complied with the notice procedures set forth in Article II, Section 4.

SECTION 3. Place of Holding Meetings. All meetings of stockholders shall be held at the principal office of the Corporation or elsewhere in the United States as designated by the Board of Directors.

SECTION 4. Notice of Meetings: Waiver of Notice. Written notice of each meeting of the stockholders shall be mailed, postage pre-paid by the Secretary, to each stockholder entitled to vote thereat at the stockholder's post office address, as it appears upon the books of the Corporation, at least ten (10) days but not more than ninety (90) days before, the meeting. Each such notice shall state the place, day, and hour at which the meeting is to be held and, in the case of any special meeting, shall state briefly the purpose or purposes thereof. Notwithstanding the foregoing provisions, each person who is entitled to notice waives notice if he or she before or after the meeting signs a waiver of the notice which is filed with the records of stockholders' meetings, or is present at the meeting in person or by proxy.

SECTION 5. Quorum. The presence in person or by proxy of the holders of record of a majority of the shares of the capital stock of the Corporation issued and outstanding and entitled to vote thereat shall constitute a quorum at all meetings of the stockholders, except as otherwise provided by law, by the Charter or by these By-laws. Whether or not a quorum shall be in attendance at the time for which the meeting shall have been called, the meeting may be adjourned from time to time by a majority vote of the stockholders present or represented to a date not more than 120 days after the original date, without any notice other than by announcement at the meeting. At any adjourned meeting at which a quorum shall attend, any business may be deferred and transacted which might have been transacted if the meeting had been held as originally called.

SECTION 6. Organization. Meetings of stockholders shall be presided over by the Chairman of the Board of Directors or, if the Chairman is not present, the Vice Chairman of the Corporation, or if the Vice Chairman is not present, by the President or a Vice President, or, if none of said officers is present, by a chairman to be elected at the meeting. The Secretary of the Corporation, or if the Secretary is not present, any Assistant Secretary shall act as Secretary of such meetings; in the absence of the Secretary and any Assistant Secretary, the presiding officer may appoint a person to act as Secretary of the meeting.

SECTION 7. Voting. Unless the Charter provides otherwise, at all meetings of stockholders, every stockholder entitled to vote thereat shall have one (1) vote for each share of stock standing in the stockholder's name on the books of the Corporation on the date for the determination of stockholders entitled to vote at such meeting. Such vote may be either in person or by proxy appointed by an instrument in writing subscribed by such stockholder or the stockholder's duly authorized attorney, bearing a date not more than eleven (11) months prior to said meeting, unless said instrument provides for a longer period. Such proxy shall be dated, but need not be sealed, witnessed or acknowledged. All elections shall be had and all questions shall be decided by a majority of the votes cast at a duly constituted meeting, except as otherwise provided by law, in the Charter or by these By-laws. Notwithstanding, a plurality of all the votes cast at a meeting at which a quorum is present is sufficient to elect a director.

SECTION 8. Advance Notice Provisions for Business to be Transacted at Annual Meeting. No business may be transacted at an annual meeting of stockholders, other than business that is either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof) or (c) otherwise properly brought before the annual meeting by any stockholder of the Corporation (i) who is stockholder of record on the date of the giving of the notice provided for in this Section and on the record date for the determination of stockholders entitled to vote at such annual meeting and (ii) who complies with the notice procedures set forth in this Section. A stockholder's notice must be delivered to or mailed and received by the Secretary at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, notice by the stockholder must be so delivered not earlier than the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. A stockholder's notice to the Secretary must be in writing and set forth as to each matter such stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address of such stockholder as they appear on the Corporation's books and of the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class or series and number of shares of capital stock of the Corporation which are owned beneficially or of record by such stockholder and such beneficial owner, (iv) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business and (v) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. No business shall be conducted at the annual meeting of stockholders except business brought before the annual meeting in accordance with the procedures set forth in Article II, Section 4 or in this Section, provided, however, that once business has been properly brought before the annual meeting in accordance with such procedures, nothing in Article II, Section 4 nor in this Section shall be deemed to preclude discussion by any stockholder of any such business. If the chairman of an annual meeting determines that business was not properly brought before the annual meeting in accordance with the foregoing procedures, the chairman of the meeting shall declare to the meeting that the business was not properly brought before the meeting and such business shall not be transacted. No adjournment or postponement of a meeting of stockholders shall commence a new period for the giving of notice of a stockholder proposal hereunder.

ARTICLE II BOARD OF DIRECTORS

SECTION 1. General Powers. The property and business of the Corporation shall be managed by the Board of Directors of the Corporation. The Board of Directors shall annually elect a Chairman of the Board of Directors from among its members and shall designate, when present, either the Chairman of the Board of Directors, Vice Chairman or the President to preside at its meetings.

SECTION 2. Number of Directors. The Corporation shall have at least one director. The Corporation shall have the number of directors provided in the Charter until changed as herein provided. Two-thirds of the entire Board of Directors may alter the number of directors set by the Charter to not exceeding 25 nor less than the minimum number then permitted herein, but the action may not affect the tenure of office of any director.

SECTION 3. Election and Term of Office. The Board of Directors shall be divided into classes as described in the Charter. Each Director shall hold office until the expiration of the term for which the Director is elected, except as otherwise stated in these By-laws, and thereafter until his or her successor has been elected and qualifies. If the number of Directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of Directors in each class as nearly equal as possible, and any additional Director of any class shall, subject to Article II, Section 5 of these By-Laws and to any requirements or restrictions imposed by the Maryland General Corporation Law, hold office for a term that shall coincide with the remaining term of that class, but in no case shall a decrease in the number of Directors shorten the term of any incumbent Director. Election of Directors need not be by written ballot, unless required by these By-Laws.

SECTION 4. Nomination of Directors. Nomination for election of members of the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the Corporation entitled to vote for the election of Directors and who complies with the notice provisions in this Section. Notice by a stockholder of intention to make any nominations shall be made in writing and shall be delivered or mailed to the Secretary at the principal executive offices of the Corporation (a) in the case of an annual meeting, not less than 120 days nor more than 180 days prior to the date of the meeting of stockholders called for the election of Directors which, for purposes of this provision, shall be deemed to be on the same date as the annual meeting of stockholders for the preceding year; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from the anniversary date of the preceding year's annual meeting, notice by the stockholder must be so delivered not earlier than the 180th day prior to such annual meeting and not later than the close of business on the later of the 120th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such annual meeting is first made; and (b) in the case of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the tenth day following the day on which notice of the date of the special meeting was mailed or public announcement of the date of the special meeting was made, whichever first occurs. Such notification shall contain the following information (a) the name and address of each proposed nominee; (b) the principal occupation of each proposed nominee; (c) the number of shares of capital stock of the Corporation owned by each proposed nominee; (d) the name and residence address of the notifying stockholder; (e) the number of shares of capital stock of the Corporation owned by the notifying stockholder; (f) the consent in writing of the proposed nominee as to the proposed nominee's name being placed in nomination for Director; (g) a description of all arrangements or understandings between such notifying stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such notifying stockholder, (h) a representation that such notifying stockholder intends to appear in person or by proxy at the meeting to nominate the persons named in its notice; and (i) all information relating to such proposed nominee that would be required to be disclosed by Regulation 14A under the Securities Exchange Act of 1934, as amended, and Rule 14a-11 promulgated thereunder, assuming such provisions would be applicable to the solicitation of proxies for such proposed nominee. Nominations not made in accordance herewith shall be disregarded and, upon the chairman's instructions, the teller shall disregard all votes cast for each such nominee.

SECTION 5. Vacancies; Removal of Director. A vacancy on the Board of Directors may be filled only in accordance with the provisions of the Charter. Any director or the entire Board of Directors may be removed only in accordance with the provisions of Maryland law.

SECTION 6. Place of Meeting. The Board of Directors may hold their meetings and have one or more offices, and keep the books of the Corporation, either within or outside the State of Maryland, at such place or places as they may from time to time determine by resolution or by written consent of all the directors. The Board of Directors may hold their meetings by conference telephone or other similar electronic communications equipment in accordance with the provisions of Maryland General Corporation Law.

SECTION 7. Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by resolution of the Board, provided that notice of every resolution of the Board fixing or changing the time or place for the holding of regular meetings of the Board shall be mailed to each director at least three (3) days before the first meeting held in pursuance thereof. The annual meeting of the Board of Directors shall be held immediately following the annual stockholders' meeting at which a Board of Directors is elected. Any business may be transacted at any regular meeting of the Board.

SECTION 8. Special Meetings. Special meetings of the Board of Directors shall be held whenever called by direction of the Chairman, or the Vice Chairman, and must be called by the Chairman, the Vice Chairman, the President or the Secretary upon written request of a majority of the Board of Directors, by mailing the same at least two (2) days prior to the meeting, or by personal delivery, facsimile transmission, telegraphing or telephoning the same on the day before the meeting, to each director; but such notice may be waived by any director. A special meeting of the Board of Directors shall be held on such date and at any place as may be designated from time to time by the Board of Directors. Unless otherwise indicated in the notice thereof, any and all business may be transacted at any special meeting. At any meeting at which every director shall be present, even though without notice, any business may be transacted and any director may in writing waive notice of the time, place and objects of any special meeting.

SECTION 9. Quorum. A majority of the whole number of directors shall constitute a quorum for the transaction of business at all meetings of the Board of Directors, but, if at any meeting less than a quorum shall be present, a majority of those present may adjourn the meeting from time to time, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by law or by the Corporation's Charter or by these By-laws.

SECTION 10. Compensation of Directors. Directors may receive a fixed sum and expenses for attendance at regular and special meetings and committee meetings, or any combination of the foregoing as may be determined from time to time by the Board of Directors, and nothing contained herein shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefore.

SECTION 11. Advisory Directors. The Board of Directors may by resolution appoint advisory directors to the Board of Directors, who may also serve as directors emeriti, and shall have such authority and receive such compensation and reimbursement as the Board of Directors shall provide. Advisory directors or directors emeriti shall not have the authority to participate by vote in the transaction of business.

SECTION 12. Committees. The Board of Directors may appoint from among its members an Executive Committee, an Audit Committee, a Compensation Committee, a Nominating Committee, and other committees composed of one or more directors and delegate to these committees any of the powers of the Board of Directors, except the power to authorize dividends on stock, elect directors, issue stock other than as provided in the next sentence, recommend to the stockholders any action which requires stockholder approval, amend these By-Laws, or approve any merger or share exchange which does not require stockholder approval. If the Board of Directors has given general authorization for the issuance of stock providing for or establishing a method or procedure for determining the maximum number of shares to be issued, a committee of the Board of Directors, in accordance with that general authorization or any stock option or other plan or program adopted by the Board of Directors, may authorize or fix the terms of stock subject to classification or reclassification and the terms on which any stock may be issued, including all terms and conditions required or permitted to be established or authorized by the Board of Directors.

SECTION 13. Committee Procedure. Each committee may fix rules of procedure for its business. A majority of the members of a committee shall constitute a quorum for the transaction of business and the act of a

majority of those present at a meeting at which a quorum is present shall be the act of the committee. The members of a committee present at any meeting, whether or not they constitute a quorum, may appoint a director to act in the place of an absent member. Any action required or permitted to be taken at a meeting of a committee may be taken without a meeting, if a unanimous written consent which sets forth the action is signed by each member of the committee and filed with the minutes of the committee.

SECTION 14. Emergency. In the event of a state of disaster of sufficient severity to prevent the conduct and management of the affairs and business of the Corporation by its directors and officers as contemplated by the Charter and these By-Laws, any two or more available members of the then incumbent Executive Committee shall constitute a quorum of that Committee for the full conduct and management of the affairs and business of the Corporation in accordance with the provisions of Article II, Section 13. In the event of the unavailability, at such time, of a minimum of two members of the then incumbent Executive Committee, the available directors shall elect an Executive Committee consisting of any two members of the Board of Directors, whether or not they be officers of the Corporation, which two members of the Board of Directors, whether or not they be officers of the Corporation, which two members shall constitute the Executive Committee for the full conduct and management of the affairs of the Corporation in accordance with the foregoing provisions of this Section. This Section shall be subject to implementation by resolution of the Board of Directors passed from time to time for that purpose, and any provisions of these By-Laws (other than this Section) and any resolutions which are contrary to the provisions of this Section or to the provisions of any such implementary resolutions shall be suspended until it shall be determined by any Interim Executive Committee acting under this Section that it shall be to the advantage of the Corporation to resume the conduct and management of its affairs and business under all the other provisions of these By-Laws.

ARTICLE III OFFICERS

SECTION 1. Election, Tenure, and Compensation. The officers of the Corporation shall be a President, one or more Vice-Presidents (if so elected by the Board of Directors), a Secretary, and a Treasurer. The Board of Directors may elect such other officers as it may from time to time consider necessary or appropriate for the proper conduct of the business of the Corporation. The Board may also have a Chairman and Vice Chairman of the Board. The officers shall be elected annually by the Board of Directors at its first meeting following the annual meeting of the stockholders and shall have such powers and duties as may be set forth in these By-Laws or conferred upon or assigned to them from time to time by the Board of Directors. The Chairman or Vice Chairman, if one or both are elected, shall be a director and the other officers may, but need not be, directors. Any two or more of the above officers, except those of Chairman and Vice Chairman and President and Vice President, respectively, may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity if such instrument is required by law or by these By-Laws to be executed, acknowledged or verified by any two or more officers. The compensation or salary paid all officers of the Corporation shall be fixed by resolutions adopted by the Board of Directors.

Except where otherwise expressly provided in a contract duly authorized by the Board of Directors, all officers of the Corporation shall be subject to removal at any time by the affirmative vote of a majority of the Board of Directors. All employees and agents of the Corporation shall hold such positions at the discretion of the Board of Directors or of the officers appointing them.

SECTION 2. Powers and Duties of the Chairman and the Vice Chairman. The Chairman, if one be elected, shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman, or if the Chairman is not independent, then the Lead Director, shall be ex-officio a member of all the standing committees of the Board of Directors. The Chairman shall do and perform such other duties as may from time to time be assigned to the Chairman by the Board of Directors. The Vice Chairman, if one be elected, in the absence of the Chairman, shall assume the duties of the Chairman and preside at all meetings of the stockholders and of the Board of Directors, and shall perform such other duties and have such other powers as are from time to time assigned to him or her by the Chairman or the Board of Directors.

SECTION 3. Powers and Duties of the President. The President shall, unless the Board of Directors so empowers another person, be the chief executive officer of the Corporation and shall supervise the carrying out of

the policies adopted or approved by the Board of Directors. The President shall have general executive powers and duties, including, without limitation, general charge and control of the Corporation's business affairs and properties and general powers and duties of supervision and management usually vested in the office of President of a corporation. The President shall also have such specific powers and duties as may be conferred upon or assigned to the President from time to time by the Board of Directors. The President may sign and execute all authorized bonds, contracts, obligations and other instruments and documents in the name of the Corporation.

SECTION 4. Powers and Duties of the Vice President. The Board of Directors may elect one or more Vice Presidents. Any Vice President (unless otherwise provided by resolution of the Board of Directors) may sign and execute all authorized bonds, contracts, or other obligations in the name of the Corporation. Each Vice President shall have such other powers and shall perform such other duties as may be assigned to the Vice President by the Board of Directors or by the Chairman or the President. In case of the absence or disability of the President, the duties of that office shall be performed by any Vice President, and the taking of any action by such Vice President in place of the President shall be conclusive evidence of the absence or disability of the President.

SECTION 5. Secretary. The Secretary shall give, or cause to be given, notice of all meetings of stockholders and directors and all other notices required by law or by these By-laws, and in case of the Secretary's absence or refusal or neglect to do so, any such notice may be given by any person thereunto directed by the Chairman or the President, or by the directors or stockholders upon whose written requisition the meeting is called as provided in these By-laws. The Secretary shall record all the proceedings of the meetings of the stockholders and of the directors in books provided for that purpose, and shall perform such other duties as may be assigned to him by the directors, the Chairman, or the President. The Secretary shall have custody of the seal of the Corporation and shall affix the same to all instruments requiring it, when authorized by the Board of Directors, the Chairman, or the President, and attest the same. In general, the Secretary shall perform all the duties generally incident to the office of Secretary, subject to the control of the Board of Directors, the Chairman, and the President.

SECTION 6. Treasurer. The Treasurer shall have custody of all the funds and securities of the Corporation, and shall keep full and accurate account of receipts and disbursements in books belonging to the Corporation. The Treasurer shall deposit all moneys and other valuables in the name and to the credit of the Corporation in such depository or depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements. The Treasurer shall render to the Chairman, the President and the Board of Directors, whenever any of them so requests, an account of all transactions as Treasurer and of the financial condition of the Corporation. The Treasurer shall give the Corporation a bond, if required by the Board of Directors, in a sum, and with one or more sureties, satisfactory to the Board of Directors, for the faithful performance of the duties of the office and for the restoration to the Corporation in case of the Treasurer's death, resignation, retirement or removal from office of all books, papers, vouchers, moneys, and other properties of whatever kind in the Treasurer's possession or under the Treasurer's control belonging to the Corporation. The Treasurer shall perform all the duties generally incident to the office of the Treasurer, subject to the control of the Board of Directors, the Chairman, and the President.

SECTION 7. Assistant Secretary. The Board of Directors may appoint an Assistant Secretary or more than one Assistant Secretary. Each Assistant Secretary shall (except as otherwise provided by resolution of the Board of Directors) have power to perform all duties of the Secretary in the absence or disability of the Secretary and shall have such other powers and shall perform such other duties as may be assigned by the Board of Directors, the Chairman, or the President. In case of the absence or disability of the Secretary, the duties of the office shall be performed by any Assistant Secretary, and the taking of any action by any such Assistant Secretary in place of the Secretary shall be conclusive evidence of the absence or disability of the Secretary.

SECTION 8. Assistant Treasurer. The Board of Directors may appoint an Assistant Treasurer or more than one Assistant Treasurer. Each Assistant Treasurer shall (except as otherwise provided by resolution of the Board of Directors) have power to perform all duties of the Treasurer in the absence or disability of the Treasurer and shall have such other powers and shall perform such other duties as may be assigned by the Board of Directors, the Chairman or the President. In case of the absence or disability of the Treasurer, the duties of the office shall be performed by any Assistant Treasurer, and the taking of any action by any such Assistant Treasurer in place of the Treasurer shall be conclusive evidence of the absence or disability of the Treasurer.

ARTICLE IV CAPITAL STOCK

SECTION 1. Issue of Certificates of Stock. The certificates for shares of the stock of the Corporation shall be of such form not inconsistent with the Charter, or its amendments, as shall be approved by the Board of Directors. All certificates shall be signed by the Chairman, the Vice Chairman, the President or by any Vice President and counter-signed by the Secretary, an Assistant Secretary, Treasurer or Assistant Treasurer, and sealed with the seal of the Corporation. All certificates for each class of stock shall be consecutively numbered. The name of the person owning the shares issued and the address of the holder, shall be entered in the Corporation's books. All certificates surrendered to the Corporation for transfer shall be canceled and subject to SECTION 3 of ARTICLE IV, no new certificates representing the same number of shares shall be issued until the former certificate or certificates for the same number of shares shall have been so surrendered, and canceled, unless a certificate of stock be lost or destroyed, in which event another may be issued in its stead upon proof of such loss or destruction and the giving of a satisfactory bond of indemnity not exceeding an amount double the value of the stock. Both such proof and such bond shall be in a form approved by the general counsel of the Corporation and by the Transfer Agent of the Corporation and by the Registrar of the stock.

SECTION 2. Transfer of Shares. Subject to SECTION 3 of this ARTICLE IV, shares of the capital stock of the Corporation shall be transferred on the books of the Corporation only by the holder thereof in person or by the holder's attorney upon surrender and cancellation of certificates for a like number of shares as hereinbefore provided.

SECTION 3. Uncertificated Stock. Notwithstanding any other provision of these By-laws, the Board of Directors may adopt a system of issuance, recordation and transfer of shares of stock of the Corporation by electronic or other means not involving any issuance of certificates, including provisions for notice to purchasers in substitution for any required statements on certificates, and as may be required by applicable corporate securities laws, which system has been approved by the United States Securities and Exchange Commission. Any system so adopted shall not become effective as to issued and outstanding certificated shares until the certificates therefor have been surrendered to the Corporation.

SECTION 4. Registered Stockholders. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and accordingly shall not be bound to recognize any equitable or other claim to or interest in such share in the name of any other person, whether or not it shall have express or other notice thereof, save as expressly provided by the Laws of Maryland.

SECTION 5. Closing Transfer Books. The Board of Directors may fix the period, not exceeding twenty (20) days, during which time the books of the Corporation shall be closed against transfers of stock, or, in lieu thereof, the Directors may fix a date not less than ten (10) days nor more than sixty (60) days preceding the date of any meeting of stockholders or any dividend payment date or any date for the allotment of rights, as a record date for the determination of the stockholders entitled to notice of and to vote at such meeting or to receive such dividends or rights as the case may be; and only stockholders of record on such date shall be entitled to notice of and to vote at such meeting or to receive such dividends or rights as the case may be.

SECTION 6. Lost Stock Certificates. The Board of Directors may determine the conditions for issuing a new stock certificate in place of one which is alleged to have been lost, stolen, or destroyed, or the Board of Directors may delegate such power to any officer or officers of the Corporation. In their discretion, the Board of Directors or such officer or officers may require the owner of the certificate to give bond, with sufficient surety, to indemnify the Corporation against any loss or claim arising as a result of the issuance of a new certificate. In their discretion, the Board of Directors or such officer or officers may refuse to issue such new certificate save upon the order of some court having jurisdiction in the premises.

SECTION 7. Exemption from Control Share Acquisition Statute. The provisions of Sections 3-701 to 3-709 of the Maryland General Corporation Law shall not apply to any share of the capital stock of the Corporation. Such shares of capital stock are exempted from such Sections to the fullest extent permitted by Maryland law.

ARTICLE V
BANK ACCOUNTS AND LOANS

SECTION 1. Bank Accounts. Such officers or agents of the Corporation as from time to time shall be designated by the Board of Directors shall have authority to deposit any funds of the Corporation in such banks or trust companies as shall from time to time be designated by the Board of Directors and such officers or agents as from time to time authorized by the Board of Directors may withdraw any or all of the funds of the Corporation so deposited in any bank or trust or trust company, upon checks, drafts or other instruments or orders for the payment of money, drawn against the account or In the name or behalf of this Corporation, and made or signed by such officers or agents; and each bank or trust company with which funds of the Corporation are so deposited is authorized to accept, honor, cash and pay, without limit as to amount, all checks, drafts or other instruments or orders for the payment of money, when drawn, made or signed by officers or agents so designated by the Board of Directors until written notice of the revocation of the authority of such officers or agents by the Board of Directors shall have been received by such bank or trust company. There shall from time to time be certified to the banks or trust companies in which funds of the Corporation are deposited, the signature of the officers or agents of the Corporation so authorized to draw against the same. In the event that the Board of Directors shall fail to designate the persons by whom checks, drafts and other instruments or orders for the payment of money shall be signed, as hereinabove provided in this Section, all of such checks, drafts and other instruments or orders for the payment of money shall be signed by the Chairman, the President or a Vice President and counter-signed by the Secretary or Treasurer or an Assistant Secretary or an Assistant Treasurer of the Corporation.

SECTION 2. Loans. Such officers or agents of the Corporation as from time to time shall be designated by the Board of Directors shall have authority to effect loans, advances or other forms of credit at any time or times for the Corporation from such banks, trust companies, institutions, corporations, firms or persons as the Board of Directors shall from time to time designate, and as security for the repayment of such loans, advances, or other forms of credit to assign, transfer, endorse, and deliver, either originally or in addition or substitution, any or all stock, bonds, rights, and interests of any kind in or to stocks or bonds, certificates of such rights or interests, deposits, accounts, documents covering merchandise, bills and accounts receivable and other commercial paper and evidences or debt at any time held by the Corporation; and for such loans, advances, or other forms of credit to make, execute and deliver one or more notes, acceptances or written obligations of the Corporation on such terms, and with such provisions as to the security or sale or disposition thereof as such officers or agents shall deem proper; and also to sell to, or discount or rediscount with, such banks, trust companies, institutions, corporations, firms or persons any and all commercial paper, bills receivable, acceptances and other instruments and evidences of debt at any time held by the Corporation, and to that end to endorse, transfer and deliver the same. There shall from time to time be certified to each bank, trust company, institution, corporation, firm or person so designated the signature of the officers or agents so authorized; and each bank, trust company, institution, corporation, firm or person is authorized to rely upon such certification until written notice of the revocation by the Board of Directors of the authority of such officers or agents shall be delivered to such bank, trust company, institution, corporation, firm or person.

**ARTICLE VI
MISCELLANEOUS PROVISIONS**

SECTION 1. Fiscal Year. The fiscal year of the Corporation shall begin on the first day of January of each year.

SECTION 2. Notices. Whenever, under the provisions of these By-laws, notice is required to be given to any director, officer or stockholder, unless otherwise provided in these By-laws, such notice shall be deemed given if in writing, and personally delivered, or sent by telefax, or telegram, or by mail, by depositing the same in a post office or letter box, in a postpaid sealed wrapper, addressed to each stockholder, officer or director, as the case may be, at such address as appears on the books of the Corporation, and such notice shall be deemed to be given at the time the same is so personally delivered, telefaxed, telegraphed or so mailed. Any stockholder, director or officer may waive any notice required to be given under these By-laws.

SECTION 3. Voting Upon Stocks. Unless otherwise ordered by the Board of Directors, the President and the Vice President, or any of them, shall have full power and authority on behalf of the Corporation to attend and to vote and to grant proxies to be used at any meetings of stockholders of any corporation in which the Corporation may hold stock. The Board of Directors, however, may by resolution appoint some other person to vote such shares, in which case such person shall be entitled to vote such shares upon the production of a certified copy of such resolution.

**ARTICLE VII
AMENDMENT OF BY-LAWS**

In accordance with the Charter, these By-Laws may be repealed, altered, amended or rescinded and new by-laws may be adopted (a) by the stockholders of the Corporation (considered for this purpose as one class) by the affirmative vote of not less than a majority of all the votes entitled to be cast by the outstanding shares of capital stock of the Corporation generally in the election of directors which are cast on the matter at any meeting of the stockholders called for that purpose (provided that notice of such proposal is included in the notice of such meeting) or (b) by the Board of Directors by the affirmative vote of not less than two-thirds of the Board of Directors at a meeting held in accordance with the provisions of these By-Laws.

**ARTICLE VIII
INDEMNIFICATION**

SECTION 1. Definitions. As used in this Article VIII, any word or words that are defined in Section 2-418 of the Corporations and Associations Article of the Annotated Code of Maryland (the "Indemnification Section"), as amended from time to time, shall have the same meaning as provided in the Indemnification Section.

SECTION 2. Indemnification of Directors and Officers. The Corporation shall indemnify and advance expenses to a director or officer of the Corporation in connection with a proceeding to the fullest extent permitted by and in accordance with the Indemnification Section. Notwithstanding the foregoing, the Corporation shall be required to indemnify a director or officer in connection with a proceeding commenced by such director or officer against the Corporation or its directors or officers only if the proceeding was authorized by the Board of Directors.

SECTION 3. Indemnification of Other Agents and Employees. With respect to an employee or agent, other than a director or officer of the Corporation, the Corporation may, as determined by and in the discretion of the Board of Directors of the Corporation, indemnify and advance expenses to such employees or agents in connection with a proceeding to the extent permitted by and in accordance with the Indemnification Section.

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

I, James M. Burke, certify that:

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

Date: August 9, 2024

By: /s/ James M. Burke

James M. Burke

President & 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, Todd L. Capitani, certify that:

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

Date: August 9, 2024

By: /s/ Todd L. Capitani

Todd L. Capitani

Executive Vice President & 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 Quarterly Report of Shore Bancshares, Inc. on Form 10-Q for the Quarter ended June 30, 2024 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Shore Bancshares, Inc.

Date: August 9, 2024

/s/ James M. Burke

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

Date: August 9, 2024

/s/ Todd L. Capitani

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